



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

19980714 121

**DISTRIBUTION STATEMENT A**

**Approved for public release;  
Distribution Unlimited**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
SPRINGFIELD, VA 22161

## NOTICE

JPRS will no longer publish the CHINA: STATE COUNCIL BULLETIN (CSB) report as a separate series. Instead, material from the bulletin will be published in the CHINA (CAR) series under the division STATE COUNCIL BULLETIN.

If any subscription changes are desired, subscribers should notify their distribution contact point. Nongovernment subscribers may contact the National Technical Information Service, 5285 Port Royal Road, Springfield VA 22161.

# China

JPRS-CAR-88-027

## CONTENTS

3 JUNE 1988

### ECONOMIC

#### PROVINCIAL

Li Ruihuan's Report at Party Congress .....	1
---	---

#### FINANCE, BANKING

Reform Brings New Financial Era .....	19
---------------------------------------	----

#### INDUSTRY

Yunnan Industrial Output .....	20
--------------------------------	----

#### SMALL-SCALE ENTERPRISES

Role of Township Enterprises in Export-Oriented Economy .....	20
---	----

#### FOREIGN TRADE, INVESTMENT

Officials From Western Provinces on Zhao's Coastal Strategy .....	21
State Patent Bureau Chief on Need for Better Laws .....	22
Shanghai Invites More Foreign Investment .....	23

#### LABOR

Discussion on Principle of 'Distribution According to Work' .....	23
---	----

#### TRANSPORTATION

Developing Hainan's Transport Infrastructure .....	26
Qian Yongchang on Highways, Ports .....	26
Extending Western Loop Railroad .....	26
Railroad To Extend to Seaports .....	27

#### MILITARY, PUBLIC SECURITY

Reduced POL Consumption on Vietnam Border .....	28
Examples of Major Losses Suffered by PLA Enterprises .....	28
He Qizong on Strengthening Border, Coastal Defense Militia .....	28
Dual Role of Reserve Forces .....	31
Group Army Improves Training .....	32
Reform of PLA's Operating Mechanism, Organizational Structure .....	33
Quality Seen as Key Element in PLA Modernization .....	35

#### TAIWAN

Labor, Education, Economic, Trade Statistics Reviewed .....	38
Continued Expansion in Economic Ties, Trade With Hong Kong .....	42

## PROVINCIAL

### Li Ruihuan's Report at Party Congress

SK2305012588 Tianjin TIANJIN RIBAO in Chinese  
29 Apr 88 pp 1-3

[Report by Li Ruihuan, member of the Political Bureau of the CPC Central Committee and secretary of the Tianjin Municipal CPC Committee, at the fifth Tianjin Municipal CPC Congress on 22 April: "Uphold the Party's Basic Line and Push Tianjin's Socialist Modernization to a New Stage"]

[Text] Comrades:

The major tasks of this party congress are to review and summarize the work of the entire municipality carried out since the previous party congress in line with the guidelines of the 13th national party congress; to define the tasks of our municipality's economic construction, spiritual civilization and party building for some time to come; to formulate the principles for deepening the economic structural reform, facilitating the political structural reform, and expediting opening to the outside world; and to mobilize all the party members and people throughout the municipality to brave the way forward in unity, and push our municipality's socialist modernization to a new stage. Now I will give a report to this congress on behalf of the Fourth Tianjin Municipal CPC Committee.

#### Major Achievements and Basic Experiences

The Fourth Tianjin Municipal party congress was held in December 1983. Over the past 5 years, under the correct leadership of the party Central Committee, party organizations at various levels and all the communist party members throughout the municipality have united with and led the masses of people in conscientiously implementing the party's line adopted since the 3d plenary session of the 11th party Central Committee, and have carried out outstanding and creative work in various fields, thus creating a brand-new situation in our municipality's socialist modernization. The past 5 years marked an extremely unusual period in which Tianjin achieved the fastest development after the founding of the PRC, the people gained the greatest benefit, and the stable and united political situation was continuously consolidated and developed. These 5 years had great significance in Tianjin's history in carrying forward the revolutionary cause pioneered by our predecessors and forging ahead into the future.

The national economy was oriented to a track of healthy development. We successfully fulfilled the Sixth 5-Year Plan, and are comprehensively implementing the Seventh 5-Year Plan. The national economy has entered a period of vigorous development. Various major targets that reflected our economic strength, economic level and economic results increased comprehensively, and

achieved significant breakthroughs. In 1987, the municipality's GNP reached 21.6 billion yuan, a growth of 64.2 percent over 1982 in terms of comparable prices, and an average annual increase of 10.4 percent. Its revenue exceeded 5 billion yuan, and its ratio of money turned over to the central financial department ranked among the best in the country. Industrial production progressed steadily, increasing by 10.8 percent a year on average, and the growth rate and economic results grew simultaneously. Completion and operation of a great number of technical transformation projects effectively promoted industrial development and technological progress, and enabled Tianjin, an old industrial city, to regain its vigor. The rural economy flourished, and witnessed unprecedented development. In 1987 the grain output hit an all-time record, the output of major nonstaple foodstuffs increased by a large margin, and the fighting goals of "self-sufficiency in egg supply," and "having no difficulty in buying fish after 3 years of hard work" were realized ahead of schedule. Township enterprises became the important pillar of the rural economy of suburban counties, and their employees totaled 820,000, amounting to 48 percent of the total rural labor force. Urban and rural markets thrived more and more. Compared with 1982, the total value of the commodities purchased for domestic trade rose by 59.4 percent, the total value of those marketed by 70.4 percent, and the total volume of commodity retail sales by 140 percent in 1987. This formed a sharp contrast with the past prolonged shortage of commodities and strained market supply.

Urban and rural reform greatly progressed. There emerged a situation where reform was ceaselessly promoted and gradually deepened over the past 5 years. Rural areas made a decisive success in the first step of reform consisting mainly of implementing the system of contracted responsibility on the household basis with payment linked to output, and made substantive progress in the second step of reform consisting mainly of promoting the development of commodity production. The industrial structure was further readjusted. There preliminarily emerged a situation in which agriculture, forestry, and animal husbandry, sideline occupation, and fishery were comprehensively developed and in which agriculture, industry, commerce, building industry, and transportation trade were comprehensively operated. The systems to manage the production and marketing of milk, aquatic products, poultry, and eggs were reformed in a coordinated manner. Channels for circulating farm and sideline products were widened. New ways to link up urban and rural reforms were pioneered. Urban areas paid firm attention to the central link of vitalizing enterprises; repeatedly made exploration; gradually conducted reform with the major content of implementing various forms of management contracted responsibility system; respectively carried out the systems of contracts for revenue tasks and profit base figures and the leasing management system among enterprises of various scales and different ownerships; and scored notable achievements in this regard. Through

carrying out the contract system, enterprises were inspired with enthusiasm for making a big stride toward the orientation of self-management, self-transformation, and self-development, and the orientation of assuming full responsibility for profits and losses. The implementation of the contract system has promoted the separation of ownership right and management right and has aroused the enthusiasm of producers and managers. Meanwhile the plant director (manager) responsibility system was implemented, the enterprise personnel affairs and employment systems were preliminarily reformed, and the lateral economic cooperation between different enterprises was extensively developed. Great progress was made in the reform work of other fronts and trades. Particularly, a new breakthrough was made in the reform of urban building, port, and urban district management systems. Along with the comprehensive development and gradual deepening of reform, the old systems that strictly fettered the productive forces began to be attacked and new systems are taking shape. All this has given the municipality's economic construction and undertakings an injection of new vitality.

A new situation of opening to the outside world emerged. Through eliminating the long-term closed state, we have made a step of decisive significance for opening to the outside world. Great progress was made in developing foreign economic relations and foreign trade, using foreign capital, and bringing in technologies. Under the situation in which the number of ports increased in China and the amounts of goods transferred from other places were substantially reduced, the municipality created \$6.588 billion in foreign exchange, brought in 684 items, and signed contracts with \$631 million involved. As of the end of 1987, the municipality signed contracts on building 230 joint ventures and cooperative enterprises with foreign firms. Of this, \$243 million was directly invested by foreign firms. So far, 135 enterprises have opened for business and have had good results in their operation. The economic and technological developmental zone has preliminarily taken shape. The developmental zone has signed contracts on building 85 Sino-foreign joint ventures and cooperative items. Upon the completion of the foreign investment service center, efficiency in serving foreign firms was improved. The municipality has notably improved the environment for investors and enjoys an increasingly higher reputation among foreign countries. Great progress was made in tourist trade, labor service cooperation, and external contacts.

Historical changes took place in the outlook of the city. In these 5 years, after completing by and large the reconstruction for the damages caused by the earthquake, the municipality started urban planning, construction and management in a comprehensive way, and entered a new stage of planned improvement of the city's function as a carrier. The successful completion of the project to divert Luan He water to Tianjin provided a stable and reliable water source for Tianjin's economic

construction and people's lives. Completion of the civilian gasification project ahead of schedule changed our municipality's energy structure, made the people's daily life more convenient, and reduced air pollution. With the continuous increase in port berths, water and air routes, and postal and telecommunications facilities, and the construction and opening of the "3 ring roads and 14 radiating streets," a fairly developed transport and telecommunications network has taken shape. Expansion and renovation of the No. 1 heat and power plant and the Junliangcheng power plant would ease the power supply strain to a certain extent. The municipality further strengthened its function as a central city with the successive completion of the food, cultural and hotel roads, the international shopping center, the clothes exhibition and sales center, hotels for foreigners, juvenile and children activity center, and other commercial and tourist facilities. The environment of the city improved greatly thanks to the large-scale street renovation, beautification and greening project, and the efforts to comprehensively tackle environmental pollution. The Tianjin railway pivot renovation project will enter latter-phase construction, and the entire project, including the new Tianjin station long hoped for by the people, will be completed successfully by the national day this year. Through the concerted efforts of the people throughout the municipality, Tianjin once criticized by central leading comrades as the most dirty and disorderly city in the country for its shabby appearance and backward facilities, has become a city with a new appearance and larger carrier capacity which is praised by people at home and abroad for its good investment climate.

The people's living standards improved notably. Through the effort to perform solid work for the people every year, and to intensify construction of the urban infrastructural facilities, many difficulties in people's daily life were solved or eased. Over the past 5 years, 16.64 million square meters of housing were newly built in urban areas, and 16.39 million square meters were built in rural areas. Houses with leaking roofs were basically eliminated, some dangerous and shabby houses were rebuilt or repaired, and blocks of old and shabby houses are being renovated in a planned manner. Throughout the municipality, more than 3,000 commercial shops and a number of commercial streets with local characteristics and farm product markets were established, and some cultural, educational, public health and sports facilities were repaired and built, thus substantially improving the people's living and work conditions. A substantial increase in urban and rural people's income accompanied the development of production. In 1987 the per-capita cost of living income of urban dwellers reached 1,094.6 yuan, increasing by 110 percent over 1982, and averaging an annual growth of 9.4 percent when considering price rises; and the per-capita net income of peasants reached 749.4 yuan, increasing by 130 percent over 1982. The 1987 year-end savings deposits of urban and rural dwellers totaled 5.495 billion

yuan, an increase of 340 percent. The number of expensive consumer goods, such as color televisions, refrigerators, washing machines and radio-recorders, owned by households increased by a large margin. Such great changes and rapid improvement in the people's living standards in five years have been rarely seen since the founding of the country.

Fruitful results were achieved in building the spiritual civilization. Focusing on the central task of the party, party committees at various levels adopted various measures to conduct education among the people in upholding the four cardinal principles, and fostering ideals and morality, thus gradually establishing public opinion and a social environment conducive to socialist modernization and overall reform. Education of various types at various levels witnessed development, education quality was improved continuously, the educational structure was rationalized, and social activities to support education yielded notable results. A new step forward was made in scientific and technological work which was oriented to economic construction and combined with production, and more than 600 scientific research results were commended by the state and the municipality. A common practice of respecting knowledge, science and talented people was initially established.

Social scientific study has positively facilitated the building of two civilizations, and the building of Marxist theory has been strengthened in practice. Cultural and art undertakings have witnessed a new situation of vigorous development, literary and artistic creation has been brisk, good performances have been staged one after another, and new literary and art talents have emerged in succession. Relatively great progress has been made in press, publishing, radio, television, cinemas, public health, sports, cultural relics, books, and other cultural undertakings. Remarkable achievements have been scored in family planning work. Relatively good results have been achieved in conducting various forms of social consultation and dialogue. People's political life has become increasingly brisk, and the building of socialist democracy has developed continuously. In addition, we have strengthened the local legislation work, conducted education in legal knowledge, and intensified people's sense of legal systems and their understanding of the obligations of citizens. We have dealt severe blows to serious criminal offences and economic crimes, and administered social order in a comprehensive manner. As a result, the social order has been improved remarkably, and the people's sense of security has been enhanced.

Over the past 5 years, in line with the principle of bringing to leading positions a number of cadres who are more revolutionary, younger, better educated, and professionally more competent, which was put forward by the party Central Committee, party committees at all levels have brought a large number of outstanding young and middle-aged cadres to leading positions. In this respect, old comrades have recommended persons of

virtue and persons with good abilities, have given consideration to the overall interests, and manifested their noble character and sterling integrity, thus smoothly effecting the cooperation between old and new cadres and the succession of the old to the new. Great achievements have been scored in party rectification conducted in the past 3 years or so. The examination of the "three types of person" during the "Cultural Revolution" period has already finished. A number of cases of seriously destroying party style and violating party discipline have been ferreted out and dealt with. Education on party spirit, party style, and party discipline has been conducted among a large number of party members. A group of excellent persons emerging in reform and construction have been admitted to the party. Under the new historical condition, the vast number of party members on various fronts have stood in the forefront of reform, displayed their spirit of action and creative forces, and exploited their vanguard and exemplary role. Through the building of party organizations, ideology and workstyle, party organizations at all levels have further strengthened their fighting capacity, thus effectively ensuring the successful completion of reform, opening up, and various other work.

Fellow comrades! Over the past 5 years, Tianjin's people have worked hard with one heart and one mind, and have created glorious undertakings one by one by depending on their actions, wisdom, and forces. In turn, the prosperity of Tianjin's undertakings and the tremendous changes in the hometown have greatly inspired Tianjin's people. Now, the vast number of the masses are proud of the fact of being Tianjin people, and have further fostered the spirit of self-respect, self-improvement, and self-confidence. This is the most valuable achievement scored in the past 5 years. We should cherish this achievement, carry it forward, and let it pass on from generation to generation.

From the practice of the past 5 years, we have obtained some helpful experiences. The major experiences are as follow:

First, we proceeded from reality in doing everything, and continuously emancipated our minds.

At present we are in a period of great social changes, in which numerous contradictions, new situations and new problems emerge in an endless stream. In such a situation, one of the important reasons why our municipality's stable and united political situation could be consolidated and developed continuously, and our reform, opening up and other undertakings could progress in a sustained and sound manner was that party committees and governments at various levels throughout the municipality conscientiously implemented the ideological line of emancipating the mind and seeking truth from facts reaffirmed at the 3d plenary session of the 11th party Central Committee, and gradually established a good social conduct of respecting practice, advocating truth, and having the courage to pioneer. This is the

basic experience in Tianjin's work, and also the most encouraging major progress. Over the past few years, we have strived to closely connect the line, principles and policies of the party Central Committee with the reality of Tianjin, and after mastering the guidelines of the party Central Committee, have proceeded from reality in implementing them in a creative manner. We attached importance to studying and applying the basic theory of Marxism, but we always regarded Marxism as a science to be continuously developed during practice, refrained from sticking to some outdated ideas and theses, and had the courage to eliminate the dogmatic understanding of Marxism and the erroneous ideas adopted in the name of Marxism so that Marxism can correctly reflect and guide practice. We attached importance to learning from the experiences of other countries and other people, but instead of copying them mechanically, we decided what we should adopt them based on our actual conditions. We attached importance to the opinions of the majority, but we made judgements through social practice, and respected and protected the correct opinions of the minority instead of easily negating the opinions of the minority. In short, we stressed adherence to the practice-understand-repractice-reunderstand dialectical materialist theory of knowledge in handling the major issues on construction and reform, and fairly successfully guarded against ossified ideas and self-confinement, thus enabling our thinking to catch up with the development of practice. Meanwhile, we provided the masses of people and cadres at various levels with the possibility to explore in the process of practice, and the chances of choice so that all the undertakings of the municipality are vigorous and filled with creative vitality.

Second, we persistently put reform in the center of all our undertakings, and facilitated reform in an active and prudent manner.

All our achievements were scored through resolute efforts to facilitate reform, and all the problems in reform we had encountered were solved continuously through the efforts to deepen reform. Putting reform in the center of all our undertakings has become a principle adhered to by more and more comrades. A solid mass foundation is needed to persistently carry out reform. We always regarded reform as a process of the masses' creation of history, respected the status of the masses as masters, treated the sensitive issues concerning the interests of the masses in a prudent manner, and adopted vivid and lively measures to make the masses understand the policies and progress of reform, enhance their scientific understanding of the nature of reform, understand the arduousness and complexity of reform, and then voluntarily plunge into the great practice of reform. To carry out reform persistently, we should correctly master the relationship between reform and construction.

We implemented the guiding principle of relying on reform in carrying out construction and promoting construction with reform and, through exploration, we

gained a successful experience of closely combining reform with the campaign to increase production and practice economy, and achieving success in them simultaneously. In this way, reform measures were instilled into the specific economic targets for which millions of laborers were working every day and every hour, and the campaign to increase production and practice economy provided a good economic environment for reform. These two situations conditioned and promoted each other. To carry out reform persistently, we should firmly grasp the two basic points of the line adopted at the 3d Plenary Session of the 11th CPC Central Committee. We paid attention to educating cadres to unswervingly uphold both the four cardinal principles and reform and opening up and to integrate them in the practice of building socialism with Chinese characteristics. When the ideological trend of bourgeois liberalization ran rampant, we waged resolute and effective struggles with a clear-cut stand; and when reform and opening up encountered obstacles, we strengthened the work of publicizing the reform and rallying public support for it and firmly pushed forward the reform and opening up. It was by adhering to these important guiding principles and measures that we fundamentally guaranteed the important position of reform in all our undertakings.

Third, we adhered to the principle of stable development and correctly mastered and controlled the situation.

In the past several decades, we encountered problems and took detours in our construction and work and often demanded rash development. Learning from historical experiences and in view of the actual situation, we always regarded stable development as an important guiding principle; stressed the importance of acting according to the objective law and proceeding from the national and municipal situation; persistently made small but unremitting steps to avoid detours; and put forward the principle of stability, steadiness, and prudence. Stability means that we paid attention to bringing the relations of various sectors into better balance, in particular the people's feelings, and strived to create a harmonious and coordinated social environment. Steadiness means that we stressed both the need to make active progress in high spirit and the need to avoid rash and ill-considered advance, that we worked cautiously, and that we advanced in a steady manner. Prudence means that we always prepared fully for any work, particularly for the implementation of major reform measures and policies, and seized opportunities to proceed in an orderly way in order to avoid mistakes and reduce reverberation as much as possible. Practice proved that this principle had a positive and profound influence on consolidating and developing Tianjin's excellent situation. It enabled cadres at various levels to pay attention to keeping a cool head, judge the hour, and size up the situation under either smooth or difficult conditions, and rapidly and correctly resolve various complicated contradictions so that the ratio among various sectors could become more balanced, the various undertakings could develop in a coordinated manner,

the smooth progress of reform, opening up, and the four modernizations could be guaranteed, and great fluctuations and relapses could be avoided. More important, thanks to our efforts to regard the stability of the people's feelings as the key, and to pay attention to it, an encouraging situation was created in which the people were of one heart, vigorously going all out to make progress. Just as Comrade Xiaoping said during his inspection tour in Tianjin: "When the masses are happy, work will be done more easily and successes will be achieved more easily." It was precisely by relying on such good practice and morale of the masses that we created such an excellent situation in Tianjin as the current one.

Fourth, we persistently placed urban construction in an important position, and created necessary conditions for people's livelihood and economic construction.

Paying attention to developing urban construction in a scientific manner in line with the objective law of urban development and with the demands of various undertakings is a special feature of Tianjin's work. Over the past few years, proceeding from the overall development of urban areas and from improving the comprehensive functions of urban areas, we have conducted urban construction and strengthened urban management in a planned manner. As a result, we have yielded tremendous economic results, produced great political effect, and received affirmation from central leading comrades and praises from figures inside and outside the country. Urban construction is closely combined with the immediate interests of the people, and thus it is an effective way to mobilize the initiative of the masses. Over the past few years, in conducting urban construction and reform, we have focused our work on solving the problems much debated by the masses, have solved a number of difficulties in people's livelihood with which we have been struggling for a long time, and have constantly improved the working and living conditions of the masses. The vast number of masses have caught sight of hope when viewing the realistic changes, and have been greatly inspired by these changes, thus forming a lively and harmonious situation in which leaders handle affairs for the masses and the masses support the work of leaders. Like some comrades said, the things concerning the relations between the party and the masses and between cadres and the masses which were lost during the "Cultural Revolution" period have been restored and carried forward by the fact of removing temporarily-built shacks, building the project of diverting Luan He water to Tianjin, realizing gasification, and building the central ring road. Urban construction is closely related to the work of various professions and trades, and is the basic condition for promoting economic development. Economic development of urban areas relies on the function of rural areas. Deviating from this function, economic development will be seriously restricted. Over the past few years, we have, in line with the demand of industrial production and long-term development, given prominence to building a number of basic facilities

which directly or indirectly serve industry, such as energy industry, water sources, transport, and postal and telecommunications services. Along with the increase in commercial, communications, cultural and educational, and public health facilities; along with the building of specialized streets; and thanks to the establishment of key traffic lines and networks in urban areas, many factors which hampered Tianjin's economic development for a long time have been eliminated, the cities' attraction and influence have been strengthened, and the role as a central city has been further exploited. Urban construction is closely related to the investment environment. The improvement in urban areas' functions has changed the image of our municipality, has enhanced Tianjin's reputation, and has formed a superiority in developing export-oriented economy. Practice tells us that cities are an organic entity which have many layers and functions, and which are related and restrict each other. Urban construction has a diverse nature in quality, and has much significance. On one hand, urban construction provides conveniences to people's livelihood; and on the other hand, it provides necessary conditions for economic construction and development in various fields. Urban construction is a building of material civilization, and is also a building of spiritual civilization. Urban construction forms an organic entity together with various other items of work. Instead of being contradictory, urban construction and various other work of cities supplement each other. From now on, we should conscientiously sum up experiences, and attend to urban construction in a scientific way so that our entire municipality will develop in a coordinated manner.

Fifth, we upheld the purpose of serving the people and exerted utmost effort in carrying out solid work for the masses.

The Communists should truly enable the people to emancipate themselves and gain benefits objectively because of our service. The experiences of Tianjin's work in the past few years could be characterized by saying that we always regarded the greatest interests of the broadest sections of people as our starting and ending points and that we earnestly and with utmost and unrelenting efforts carried out solid work to benefit the people. Five years of practice and nearly 100 solid projects to benefit the people enabled us to accumulate some valuable experiences, the most important being that we should regularly conduct education on the purpose of the party so that the masses of cadres can truly understand the historical reasons why and objective basis on which our party and government should and can exist so that they can firmly foster the idea of putting the masses first, bear the interests of the people in mind, do everything for the people, take initiative in doing solid work for the people, and make it a practice, a habit and a system. To do solid work for the people, we should adhere to correct principles, that is to persistently undertake work that benefits the majority of people, work that is needed most urgently by the people, work



that has a far-reaching influence, work that promotes the spiritual civilization, and work we are capable of doing. This made the road of doing solid work wider and more even and yielded good results in various fields. The key to persistently doing solid work for the masses is having a good mental attitude and a good work style. In the past few years, we considered the improvement of cadres' work styles to be an important task and continuously overcame bureaucracy of various types through ideological education, system reform, and necessary organizational measures so that the masses of cadres could feel the awareness of the masses, experience and observe their hardships, temper their work style of doing solid work, and improve their skill of doing solid work in their practice of doing solid work for the masses. We gradually established throughout the municipality a good work style of doing thorough and down-to-earth work, stressing actual results, facing up to difficulties, and braving the way forward, which became an important guarantee for our successes in various fields of work.

Sixth, we upheld the unity of the two basic points and gave full play to our political advantages.

Ours is a socialist country that is provided with political advantages not found in capitalist countries. We have the centralized and unified leadership of the party, the basic theory of Marxism, the superior socialist system, and the common ideal and fighting goal that embody the fundamental interests of millions and millions of people. In the new situation in which reform and opening up are carried out and the socialist commodity economy is greatly developed, it is a very important issue of principle whether we should adhere to these political advantages and how we can correctly adhere to them. In the past few years, we have made continuous efforts to clarify numerous confused ideas and have paid attention to resisting and avoiding the two kinds of erroneous tendencies. On the one hand, we opposed the use of ossified concepts to treat our advantages, continuously eliminated the "leftist" influence, and increased our advantages so that they can be more compatible with the needs of the new historical period. On the other hand, we opposed the practice of forgetting and even negating our advantages just because of reform and opening up and the practice of turning reform into the mechanical copying of capitalism. In the past few years, in line with new historical conditions, we have strived to apply the political advantages to the work of organizing and mobilizing the masses, fully mobilized the initiative of the masses, and allowed it to play its role rationally so that it could last long and be continuously raised to a new level. We closely combined the building of the material civilization with that of the spiritual civilization and summarized a fresh experience of "attending to the two civilizations simultaneously and making them yield results simultaneously." We adopted the method of combining ideological education, the principle of material interests, and administrative management to educate the staff members and workers to correctly handle relations among the state, the enterprise, and the individual in

terms of interests, thus arousing their enthusiasm for reform and construction. We applied such effective methods as political mobilization and voluntary labor to the construction of some major projects. As a result, the people's realm of thought was upgraded. A social media environment conducive to reform and construction took shape thanks to our attention to improving propaganda work by media and to guiding and educating the masses with modernized mass media means. We strengthened democratic and political construction and adopted various forms to attract the masses' attention to and participation in and discussion of government and political affairs and to have the masses play a role as the master of the country. The extensive progress of social consultative dialogue, heart-to-heart talk, and service activities has provided the masses with more opportunities and channels for keeping contacts with the party and governments. Thus, leading organs have opened themselves more widely to the masses. We resolutely changed and corrected the previous wrong practices of frequent and exaggerated criticism. Leaders at various levels were also urged to resolutely overcome their narrow-minded points of view; correctly treat the cadres' and masses' advantages and disadvantages; treat the people equally, sincerely, and frankly; and strive to make the people have ease of mind and bring their functions into play. Just because we correctly brought our political advantages into play, the whole people of the municipality, under the new situation of reform and opening to the outside world, have formed and maintained a high popular morale, boosted their morale, enhanced their courage to overcome difficulties, and maintained aspirations to rejuvenate China. Comrade Xiaoping had fully affirmed these practices. In his inspection of Tianjin, he profoundly pointed out that Tianjin's might would be great through conducting reform, applying modern sciences and technologies, and placing stress on politics.

While affirming the achievements and summing up experiences, we should notice our shortcomings and weakness in line with the principle of seeking truth from facts. Our understanding about the construction of socialism with Chinese characteristics, the implementation of the party's basic line in the initial stage of socialism, the policy of opening to the outside world to enliven the domestic economy, and the development of commodity economy has yet to be deepened. Our leadership system and method are not fairly suitable to the demands of the new situation of reform and opening to the outside world. A small number of party members and cadres are still engaged in such ill activities as abusing their power for selfish ends and practicing bureaucracy, and there are even some decadent phenomena. The social order and social practices in some localities are still unsatisfactory. Due to price hikes, the improvement of the people's life has been affected to a certain degree and a small number of residents' real living standards have been lowered. There are many difficulties and problems in the economic construction. The enthusiasm of the people in some fields has been dampened and the

development of productive forces has been fettered due to our failure to completely rationalize the relationship between different sectors of the economy. The work in the scientific, technological, and educational fields cannot suit the demands of the four modernizations. The quality of laborers is not high. The pace to turn scientific and technological findings into productive forces is rather slow. Raw material price hikes and the shortage of energy resources are factors affecting increases in economic results and revenues and have brought about increasingly heavier pressure on industrial production. The reserve strength of economic development has been affected due to fewer input and lack of key projects over the past few years. The weak links in the urban infrastructural facilities have yet to be further enhanced and improved. Faced with these difficulties and problems, we must be inspired with enthusiasm, upgrade our understanding, unite as one, work arduously, further achieve a success in the work in all fields, and ceaselessly push forward Tianjin's socialist modernization.

#### Strategic Plan and Major Measures

The strategy for the economic development of coastal areas put forward by the party Central Committee has indicated an orientation for us to expedite development. As an important open coastal city, Tianjin should go ahead of others in developing the export-oriented economy, and make even greater contributions to our country's four modernizations. This is a major economic issue, and political issue concerning further development of the socialist system advantages. At present, promises and difficulties exist simultaneously, and opportunities and challenges emerge simultaneously. There are two possible futures ahead of us. One is that we seize the opportunity to march toward development, and the other is that we lose the opportunity and become backward. All the communist party members and people throughout the municipality must clearly understand the situation, mobilize themselves rapidly to carry out down-to-earth work, and lose no time in accelerating our municipality's economic development with a strong sense of task and urgency.

It is totally possible for Tianjin to accelerate its development. Tianjin has already had a certain foundation, and it has also created many new favorable conditions through the work over the past few years. These new favorable conditions are being turned into comprehensive advantages which become increasingly stronger every day.

Tianjin has a superior geographical position. Being near Beijing and bordering on the Bohai Sea, Tianjin is located in the area around the Pacific whose economic development flourishes the most at this time. As the largest coastal city in north China, Tianjin has a harbor with great potential for development, a vast hinterland, long-range and extensive domestic and foreign economic

ties, and developed and convenient transport networks. The superior geographical conditions provide favorable conditions for Tianjin to enter the world economic stage.

Tianjin has a substantial industrial foundation. Tianjin is an old industrial base whose comprehensive supporting facilities are strong, and whose level of industrial technology and management is fairly high. During the Sixth and the Seventh 5-Year Plan periods, it increased its industrial fixed assets, completed a great number of technical transformation projects, and further enhanced its economic and technological strength. This provides a solid material foundation for future greater development, absorption of foreign capital, import and mastery of foreign advanced technology, and large-scale production of competitive world market commodities.

Tianjin has abundant natural resources. Tianjin is rich in petroleum, natural gas, crude salt, earth's heat, coal, good-quality pottery clay and other resources, and has vast areas of wasteland and beaches to be developed. It is rare for a large coastal city to have such rich resources. The combination of its strong processing capacity with its development of abundant resources represents a tremendous potential for Tianjin's economic development.

Tianjin has fairly strong scientific and technological forces. The municipality has 28 regular colleges and universities with 230 specialties, more than 360,000 scientific and technological personnel, and a great number of skilled workers. It is one of the country's central areas where scientific and technological forces are most concentrated. The tremendous intellectual potential is the most necessary and the most valuable social resources for economic development.

Tianjin has good infrastructural facilities. It has built a number of important infrastructural facilities and supporting service projects in water, power and gas supplies, transportation, and post and telecommunications over the past few years to notably improve the living and work conditions, and greatly enhance the city's carrier load capacity. This provides extremely important prerequisites for the entire economic development, initiation of a great number of new projects, and better performance in its function as a central city.

Tianjin has wide internal and external connections. As a noted commercial port, Tianjin now has had trade contacts with more than 150 foreign countries and regions, and has established long-term business relations with more than 10,000 foreign traders and firms. Meanwhile, Tianjin has long maintained close contacts with commercial units all over the world, and has developed a multi-layered lateral connection network with them over the past few years. The initial formation of the pattern of opening to all directions of the world and other places of our country, the constant improvement in investment environment, and the increasingly enhanced

reputation at home and abroad have laid a solid foundation for gearing Tianjin's economy to the demands of the domestic and international markets.

Tianjin has hard working people. Along with the increasingly improved material and cultural livelihood and the further exploitation of political superiority, the self-confidence, the sense of pride, the sense of mission, and the sense of responsibility of Tianjin's urban and rural people have been continuously enhanced; their spirit of dedication and enthusiasm in creating have burst out; relations among the people have become harmonious; people at higher and lower levels have communicated with and comprehended each other; and the unity among the people has been manifested in visible and invisible forms. All of them have formed a strong internal motive force to promote the development of the municipality.

Tianjin has enterprising cadres. Through the practice of reform and construction over the past few years, the vast number of cadres in Tianjin have been tempered, have accumulated experiences, and have enhanced their foresight and their ability to master complicated situations. At the same time, there have been a number of leading members and talents with a strong sense of dedication, a concept of working hard, and a high work efficiency. This is an organizational guarantee for still faster development in the future.

Our strategic plan is: By taking full advantage of Tianjin's advantages, we should implement the strategy of accelerating economic development by combining internal work with external work, with the external work predominating, and by focusing on improving efficiency, to build Tianjin into a comprehensive industrial base equipped with advanced technologies, into an open economic center with many functions, and into a modernized international port city. By so doing, Tianjin will be able to play a still greater role in building socialist modernization throughout the country.

To attain this strategic plan, we should realize the following tasks by the end of this century. 1) The gross national product and the total industrial and agricultural output value should increase steadily at a relatively rapid speed, and the strategic task of quadrupling the 1980 figures should be fulfilled 3 years ahead of schedule. A substantial increase should be made in social and economic efficiency, labor productivity, and the quality of products. 2) We should basically gear our industrial structure, product mix and enterprise organizational structure to the demands of export-oriented economic development. Our major products should be produced in line with international standards, and our enterprises should be able to enter international markets with their strong competitiveness. The total output value of export products should account for more than 1/3 of the total output value of the final products. 3) We should take the lead in developing science and technology, and rapidly narrow the gaps between our municipality and economically developed countries. Industrial production should

be based on the technological level the developed countries reached in the late 1980's or early 1990's. Our traditional products should be renovated based on new technologies. We should produce several new products which approach and catch up with the advanced world level. 4) Agriculture marches greatly toward modernization. The production scale is appropriate and rational, the level of mechanization and intensive management is greatly raised, and modern science and technology are extensively applied to planting, breeding, plant protection and epidemic prevention, fine seed cultivation, and processing of farm and sideline products. 5) The target of overall planning is achieved in urban construction. Infrastructural facilities become more perfect, the old city proper is further renovated, environment is further improved, initial shape is established in the development of coastal areas and the areas along the lower reaches of Hai He, and a network of satellite cities and towns with their own characteristics take shape. 6) Population natural growth is controlled within 10 per thousand, the total population in urban and rural areas does not exceed 9.5 million, and the quality and health level of the people improve notably. 7) Cultural, educational, health and sports undertakings suit the needs in economic and social development even better. After the 9-year compulsory education is made universal and education at the senior middle school level is popularized, the structure of higher education becomes rational and its level is improved so that Tianjin can become an important base area of the country to train middle- and high-grade personnel of various specialties. The cultural and moral quality of urban and rural people is notably improved. 8) The people's living conditions are further improved. Per-capita income of urban and rural people, and social public welfare increase fairly greatly. The per-capita living space of urban people reaches 9 square meters, heat and hot water are supplied in large areas, civilian telephones are popularized, and the style of living becomes more civilized, scientific and healthy.

By that time, Tianjin will establish a new industrial system in its initial form that reflects contemporary scientific and technological levels, and become one of the bases which continuously transfers technology to inland areas, and renovates the national economy with modern technology. Tianjin's products will sell well in the whole country and the world, and become the focus of the people's attention. By that time, Tianjin will have the waterway, land and air transport lines extending in all directions, sensitive and highly effective telecommunications networks, complete and advanced public facilities, complete branches of service trades, and a neat and beautiful city appearance, and will become a modern city with comprehensive service functions. By that time, Tianjin will take on a brand-new look to stand with the famous cities of the world, and become an important showcase through which the achievements of socialist modernization are displayed to the world.

To achieved the above-mentioned strategic goals, we should adopt the following principles and strategic measures:

First, we should conscientiously rely on scientific and technological progress to promote economic and social development. We should greatly raise the scientific and technological levels, and the level in applying science and technology in the national economy, and actively facilitate modern management to make it become a decisive factor in accelerating our municipality's economic and social development. While fulfilling their basic research tasks, scientific research departments should regard the upgrading and upgrading of industrial products and production equipment, and the mastery, application and further development of imported technology as the major battlefield of scientific and technological development, and should regard township enterprises as important bases in which scientific and technological achievements are applied. We should organize on a large scale scientific research units and scientific and technical personnel to enter enterprise groups, and encourage the scientific research units provided with favorable conditions to directly establish technology-intensive enterprises. Economic departments should increase their reliance on, support for and input into scientific and technological progress, pay attention to giving play to the role of engineering and technical personnel of enterprises, actively adopt scientific and technological achievements, and particularly pay close attention to the close coordination of scientific research and production, with the focus on expanding product exports, to substantially improve the grade of products and their quality.

Second, we should firmly attend to setting up an optimum industrial structure suitable to the development of an export-oriented economy. It is necessary to accelerate the pace of readjusting the industrial structure and the product mix in line with the characteristics of Tianjin, as a city, the demands of the export-oriented economic development, and the principle of giving consideration to both international and domestic markets. The orientation to readjust the industrial structure and the product mix is as follows: Vigorously develop labor intensive industries with powerful competitiveness on the international market and industries where intensive labor and intensive technology are linked with each other. Positively develop, through selections, technologically advanced industries with great export potential and high technology industries. Meanwhile, it is necessary to further develop basic raw material industries. Select several fist products readily needed by markets with a development foundation. Through readjustment, reorganization, and coordination, we should set up many large enterprise groups and associations to appropriately expand the scale of production. Accelerate the pace of developing export products with fewer investment and faster economic results, and strive to make the development become a big trend of expanding exports. It is necessary to adopt various forms, such as joint investment, cooperative production, processing of imported materials, compensation trade, and input of technology and equipment, to make a group of enterprises embark

on the path of jointly developing export-oriented economy. It is necessary to vigorously develop tertiary industry, particularly circulation and banking industries, with the focus on enhancing the functions for serving the city.

Third, we should vigorously develop foreign trade and international and domestic economic and technological exchange. It is necessary to carry out the combination of export orientation and import substitutes, to regard the work of expanding exports to create foreign exchange as a key task of export-oriented economic development, and to organize and send, on a large scale, commodities to the international market. Meanwhile, we should positively use foreign capital, bring in technologies, and produce products urgently needed by the domestic market to substitute imported products. While enlivening the existing specialized foreign trade companies, we should organize and set up industrial-trade and agricultural-trade export corporations and groups; give the right to direct foreign trade to large enterprises with potential to create more foreign exchange or with potential to develop export trade; and gradually set up various forms of multi-tiered and multi-channeled structure to manage export production and the foreign marketing service network. The economic and technological developmental zone should bring into play its role as a showcase. We should adopt flexible policies and give free rein to expanding processing and assembling industries with materials and specifications provided by foreign firms and compensation trade. It is necessary to positively develop Sino-foreign joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-owned enterprises; and carry out the international practice of management by foreign businessmen or dominantly by foreign businessmen. We should adopt methods, such as encouraging joint investment and marketing shares, to conduct technological transformation with foreign capital among a group of export enterprises and large and medium-sized enterprises with export potential in a selective and planned manner. Simultaneously, foreign firms are allowed to manage, on a contracted or leasing basis, the long-term loss-making enterprises and enterprises with poor management. It is necessary to continuously develop tourist trade, expand the export of labor services and technologies, and positively contract for undertaking the construction projects abroad. In line with the goal of developing export-oriented economy, we should closely link the opening to the outside world with cooperation with the places at home, combine the development of an export-oriented economy with the development of domestic economy, organically integrate the municipality's economic strength with that of brotherly provinces and municipalities and the borrowed foreign economic and technological forces, and have the opening to the outside world and the cooperation with the places at home promote each other. It is necessary to further enliven the circulation field, expand the wholesale network to serve the domestic market, develop goods purchasing centers with special characteristics, cultivate and

perfect market system, and have Tianjin bring into play its role as a key city in conducting large-scale exchange of commodities, goods, materials, capital, technologies, and information.

Fourth, we should further improve investment environment and strengthen the overall function of cities. Proceeding from the work of building a modernized city and adapting ourselves to the demands of developing an export-oriented economy, we should open up more fund channels, boldly utilize foreign capital, and attend to the building of the power industry, postal and telecommunications service, transportation, the urban water supply, environmental protection, and basic service facilities. We should provide convenient working and living conditions for foreign investors. We should formulate and further improve the flexible and attractive preferential policies, continue to simplify the examination and approval procedures, improve work efficiency and service quality, and create an even better environment that suits the development of the export-oriented economy.

Fifth, we should continue to promote the integrated development of urban and rural areas. We should make greater efforts to make comprehensive planning and arrangements for urban and rural areas, for industry and agriculture, and for the urban industry, including the district and neighborhood industries, and town and township enterprises. We should strive to develop agricultural production towards high quality, high technology, and a high level; should develop an agriculture which can earn foreign exchange; and should accelerate the process of commercialization and modernization. We should increase material and technological investment in agriculture, continue to exploit natural resources, build a number of agricultural and sideline production bases with a high degree of intensive management, and raise the production level and the quality of processing. We should further perfect the policies on contract purchases of grain and major agricultural and sideline products and continue to implement the policy of supporting and building agriculture with rural industries. We should adopt the principles of giving positive supports, doing reasonable planning, giving correct guidance, and strengthening management to effect a still greater progress in town and township enterprises and produce a number of competitive products which can earn foreign exchange through being exported.

Sixth, we should strive to run education well and strengthen intellectual development. We should persistently place the development of educational undertakings in a prominent and strategic position and should cultivate various kinds of specialized talents and a contingent of better-quality laborers. We should continue to strengthen basic education; comprehensively improve the quality of schools; improve the educational structure, and vigorously develop a vocational and technical education network with various layers, forms, and channels. We should develop in-service educational courses emphasizing professional and technical training

to improve the ideological, technical, and professional expertise of all kinds of workers. While grasping the training of talented people, we should pay special attention to tapping the potential of existing talents. We should further formulate and implement policies on encouraging a rational flow of talents in order to create a fine social environment for fully exploiting the role of existing talents. We should import from abroad a number of entrepreneurs, engineers, technicians, and foreign trade experts who understand well the situation on international markets well, who are good at management and operation, and who have technical specialties. We should select and send in a planned manner a number of our personnel to study and investigate, and to sell our products abroad so that they can constantly enrich their knowledge and abilities on the great stage of the world market.

Departments concerned should unfailingly formulate their plans for implementing the aforementioned strategic plans and major measures by stages and should, in particular, rapidly work out their specific plans for the next 5 years.

To realize the aforementioned strategy, the most important thing for us is to do now is to unify our thinking, change our concepts, open up our train of thought, and advance on the crest of a victory. We should overcome the thinking of being content with things as they are and the idea of inertia; we should foster lofty aspirations of surpassing the advanced world level; we should overcome the idea of having no end of misgivings and being afraid of taking risks; we should be bold in importing foreign capital, technologies, and talents; we should take an active part in international economic activities; we should overcome the concept of following the beaten path and cherishing the outmoded; and we should positively adopt various feasible methods and forms to promote the development of the export-oriented economy with the spirit of making progress, blazing new trails, and assuming responsibility. We should also overcome the wait-and-see attitude and the idea of waiting negatively for something should go into positive action and make a rapid beginning in order to yield results as soon as possible.

#### **Economic and Political Structural Reform**

Reform has entered a new stage after 9 years of practice. The major indicators of this are: First, the 13th party congress summarized the practical experiences in reform and opening up in the previous 9 years, put forward the theory of the initial stage of socialism, and provided scientific data and a theoretical foundation for deepening reform. Reform will be carried out in wider fields and at a more profound level. Second, the strategy decided by the party Central Committee for accelerating the economic development of coastal areas requires that we achieve new progress in our work in various fields. In order to accelerate economic development, reforms must be carried out more quickly in the foreign trade, science

and technology, education, finance, banking, and other fields and within enterprises. Third, following the continuous deepening of the economic structural reform, the political structural reform has been included in the schedule of the entire party. According to the overall arrangements for the modernization drive, a new situation will emerge in the future in which economic construction is placed in the center and economic structural reform, political structural reform, and the spiritual civilization coordinate and promote one another and progress as a whole. Fourth, important experiences in reform have been accumulated through several years of practice, and a foundation for quickening the pace has been laid. Meanwhile, because we have entered a transitional period in which the two kinds of systems coexist, there are still many contradictions and imbalances in economic and social life; basic economic relations between the state and the enterprise, the collective and the individual, the industry and agriculture, the planning and the market, and the macroeconomy and the microeconomy have not been brought into balance; and the patterns of power and profit and of interests established through reforms in the previous few years have yet to be adjusted continuously. Deepening of reform also sets forth many new demands on the coordinated and supporting reforms in various fields. All this will make it harder to make policy decisions and promote reform, and the next step of reform will be more complicated and arduous than in previous few years.

To continuously push reform forward in a resolute and stable manner, we should pay attention to the following issues when enhancing ideological understanding and guiding work.

First, we should uphold the standard of productive forces. The theory of the initial stage of socialism and the standard of the productive forces put forward at the 13th party congress enabled us to understand the line adopted since the 3d Plenary Session of the 11th party Central Committee from a theoretical perspective. This represents an extension and development of the emancipation of mind of the past 9 years and is also a starting point from which we should further emancipate our minds. The most fundamental thing in our endeavor to emancipate the mind is to take productive forces as a criterion in seeking truth from facts and carry out reform bravely. We should acknowledge, encourage, and uphold all things that are conducive to the development of productive forces and the improvement of the people's living standards. We should not regard the things that shackle the development of productive forces and do not have a socialist nature or the things that suit only certain special historical conditions as socialist principles and stick to them. Neither should we regard things that are conducive to the development of productive forces and the economic phenomena that are bound to emerge after large-scale socialized production and development of the commodity economy as capitalist trends and oppose them. Only when we truly set a standard for productive forces can we keep in step with the people's thinking and practice and catch up with the social trend of reform.

Second, we must pay attention to bringing into play the superiority of the socialist system. Our aim in conducting reform is to improve the socialist production relations and superstructure. Being essentially different from the capitalist commodity economy, the socialist economy is a planned commodity economy based on public ownership. Therefore, we should conduct reform in order to organically link regulation by planning with regulation by market and to maintain the vitality of the national economy. Our country is a socialist country where the people's democratic dictatorship is advocated. Our basic political system is good. Our aims in conducting the political structural reform are to overcome excessively concentrated power and the influence of bureaucracy and feudalism and to build socialist democratic politics with Chinese characteristics. We are by no means conducting our political structural reform by indiscriminately copying the Western system of separation of the three powers and of different parties ruling the country in turn. Under the situation of comprehensively carrying out and accelerating reform, the more we acknowledge the malpractices in our current systems and the more we pay attention to studying the foreign advanced experiences, the more we should firmly believe in and attend to our advantages. Our reform and construction are conducted in an economically backward, big, Oriental socialist country. It is China, not a foreign country. We advocate socialism, not capitalism, and socialism with Chinese characteristics, not the socialism advocated by other countries. If we ignore this basic fact, indiscriminately copying foreign country's patterns or advocating total westernization, our country will not achieve a success in reform but instead will embark on an evil path. It is necessary to resolutely stop the phenomena in which we not only fail to learn the truly good things from foreign countries but also lose our innate advantages. We must affirm that our advantages are by no means equal to the advantages treated with ossified points of view. We must conscientiously study the issues of how to bring into play the advantages of socialism under the new situation, for instance, how to maintain the dominant role of public ownership; how to seek unity between planning regulation and market regulation; how to link the material benefits with mental encouragement; how to persist in and improve the party leadership; how to persist in the People's Congress system and the system of multi-party cooperation and political consultation under the leadership of the party; how to persist in the mass line, democratic centralism, and ideological and political work; and how to establish a new-type of socialist equality and harmonious personnel relationship. Only when we proceed from reality, oppose both ossified thinking and liberalization, persist in the principle of reform and opening to the outside world, are not divorced from the socialist path, and link reform with the work of bringing into play the advantages of socialism can we certainly concentrate our overall advantages, economically catch up with the well-developed capitalist countries, and politically create a higher and more realistic democracy.

Third, we must pay attention to linking macroeconomic control with microeconomic vitality. Through further decontrolling of enterprises, enlivening the economy, and changing the enterprise operational mechanism, enterprises will be delegated the power to self-manage and will assume full responsibility for their profits or losses, play a central role in conducting the economic structural reform, and adapt themselves to the demands of the development of the commodity economy. However, enlivening the microeconomy cannot be separated from macroeconomic control. The degree of microeconomic vitality is decided by the level of macroeconomic control. The current major problems are that new economic operational mechanisms are still not perfect, and that their predominant position has not been established. Meanwhile, some macroeconomic management departments do not handle or have not successfully handled the things they should handle, do not delegate or have not sufficiently delegated the power they should delegate to lower levels; adopt outdated managerial methods; or have not fostered the idea of serving the needs of enterprises. At present some unstable factors still exist in the economic life, and the entire economic environment is still stringent. Therefore, we should strengthen and improve the macroeconomic management, and promote microeconomic flexibility. For some time to come, we should bring the total investment in capital construction under strict control in line with the principle of achieving a basic balance between the general demand and the general supply. Meanwhile we should reorient investment to make it conducive to achieving scientific and technological progress and the optimum structure of industries, and to improving the people's living standards, and see to it that investment is made vigorously while being tightened up, and that the investment which should be made is guaranteed and the investment which should be suspended is suspended. We should strengthen management of consumption funds to make the growth rate of consumption compatible with the development of production. We should adopt resolute and effective measures to check arbitrary price hikes, gradually bring the price system into better balance, and maintain a basic stability in market prices. In line with the requirement for establishing a new economic operational mechanism by which "the state regulates the market, and the market guides enterprises," we should gradually establish a macroeconomic regulating system emphasizing indirect management, and guide enterprises to exercise management and make policy decisions correctly.

Fourth, we should respect and rely on the masses. The people are the main body of history, and reform is the undertaking of the people. The progress of reform is decided by the support of the masses of people, and whether or not the ultimate success in reform can be achieved is decided by whether or not the reform can be supported by the masses from the beginning to the end. We should have high awareness in this question. An important principle we should always adhere to in carrying out reform is that we should respect the status of

the masses as masters, develop their initiative, support their bold explorations, and summarize their practical experiences. Fundamentally speaking, our reform is no doubt compatible with the overall interests of the masses. Judged from the present situation, the overwhelming majority of the masses have gained benefit from it. However, in the process of reform, the people's attitude toward reform will often be affected to a certain extent by the continuous adjustments of and the complicated changes in the relations of various sectors in terms of interests. For this reason, when studying reform problems and adopting reform measures, we should take into consideration the interests of as many sections of people as possible, and embody social equitableness as much as possible. "On many occasions, the masses have certain needs for reform objectively, but subjectively they are not aware of it, and are not determined and willing to carry out reform. We should have the patience to wait and carry out the reform when the majority of the masses have the awareness and determination and are willing to carry out reform through our work. Otherwise, we will be divorced from the masses." (Mao Zedong: "The United Front in Cultural Work") In the process of deepening reform, we should pay close attention to experiencing and observing the masses' feelings, and fully consider their desire and capacity to stand strains. Before it is acceptable to the majority of the masses, even a correct reform measure should not be implemented rashly.

Fifth, we must achieve success in all supporting reforms. Reform is a huge systems engineering of the society. In particular, we are now in a period in which the new and old systems coexist and are mutually conditional, and various factors are interrelated and restrict each other, which brings about a complicated situation full of contradictions. Perhaps the reform of a partial and single item in a certain sphere will yield temporary results. However, if there are no supporting reforms, the results will be hard to consolidate. Therefore, we must fully consider the comprehensive and coordinated development of various reform items, and should not overemphasize a certain field to the neglect of the other. The framework of new structure is an organic entity. This organic entity requires us to link up and coordinate the development of reforms in the fields of economy, politics, education, science and technology, and various other spheres. Reform and economic development restrict and promote each other. On the one hand, the imbalanced macroeconomic development and the rigid external environment will certainly hinder the rapid development of the economic structural reform. On the other hand, only by deepening reform can we relieve and eliminate the instabilities in economic work, rationalize the relations among basic economic sectors, and realize a rational economic operation and virtuous circles. Reform needs a long and gradual process. It is impossible for us to achieve success in one step. Therefore, we must base the reform on practical conditions, and define priorities and coordinated measures for the reform of a certain period in line with the objective demand of economic development and the internal logic of reform.



Reform must be conducted by stages and in steps. Sometimes, we should adopt some transitional measures and flexible methods for reform to carry out reform in a steady manner, and reduce social fluctuations. In carrying out reform, we must solve the imbalanced situation in a timely manner, and should use the regular "minor regulation" to avoid "large-scale repair" of serious imbalance.

Sixth, we must sum up experiences in a timely manner. Under the guidance of the spirit of the central authorities, the vast number of masses have lunged into the practice of reform with a great zeal, and have created many fresh experiences. We should sum up these experiences in a timely and conscientious manner. Because reform is a process of making explorations, it is hard to avoid mistakes. But, we cannot pay tuition fees endlessly. We must face up to problems, analyze reasons, and draw a lesson from mistakes so that we can make a step whenever we fight a battle, and gain a wit whenever we fall into a pit. Reform is a great school. Leaders at all levels should approach the masses' experiences gained in practice, their own and other experiences, direct and indirect experiences, and successful and unsuccessful experiences with the scientific Marxist spirit and with a creative vigor. Leaders at all levels should also be good at changing their perceptual knowledge to rational knowledge, and should be good at gathering something of universal significance from the numerous partial experiences and then making new theoretical outlines. By so doing, they can constantly supplement and improve the policies and measures concerning reform, can constantly enrich and develop theories, and can conduct practice, sum up experiences, make improvement, and make progress simultaneously.

In the coming 5 years, the major tasks of the municipal economic structural reform are: In line with the general goal of developing socialist commodity economy, focusing on deepening the reform of enterprise management, we should carry out comprehensive reforms in all ranges, rationalize the relations among basic economic sectors, accelerate the shift of old to new structures, and gradually establish a new structure that suits the demands of the municipality's economic development strategy.

1. We should comprehensively implement the enterprise contracted responsibility system. We should conscientiously implement the "Laws on the Whole People Owned-Industrial Enterprises" adopted by the first session of the seventh NPC, and should consolidate and develop the achievements scored in reform. By firmly grasping the coordinating, perfecting and deepening of the enterprise contract system, and on the basis of perfecting the incentive mechanism, we should regard the introduction of competition mechanism as a focal point to popularize the enterprise contract system. No matter which form of managerial responsibility system an enterprise adopts, the enterprise should pay attention to exploiting the initiative and creativity of workers and staff members. We should not only ensure that managers

of enterprises can independently exercise their management power and have management authority; but also ensure that workers can fully exercise their democratic rights and play their role as the masters of their enterprises. We should further integrate the deepening of reform with the in-depth development of the campaign to increase production and practice economy, and increase revenues and reduce expenditures, to achieve still better economic and social results.

2. We should continue to develop an economy with diverse forms of ownership, on the prerequisite of regarding the public ownership as the predominance. Thus far, the development of economic sectors other than the publically owned sector has not been nearly enough. We should continuously encourage the development of the urban and rural cooperative economy, the individual sector of economy, and the private sector of economy; protect the legitimate interests of the private sector of economy; and should, at the same time, strengthen the guidance, supervision and management of the private sector of economy. We should strive to develop enterprises publically owned by the whole people and jointly built by collectives, as well as publically owned enterprises whose shares are purchased by various localities, departments and other enterprises. We should also vigorously develop the Chinese-foreign joint venture enterprises, cooperative enterprises, and foreign-funded enterprises, and actually protect the legitimate rights of foreign investors.

3. We should accelerate the reform of foreign trade structure. In line with the central authorities' goals of "assuming sole responsibility for one's own profits or losses, relaxing restrictions on management, combining production with the demands of foreign trade, and popularizing the system whereby foreign trade corporations act as agents for other enterprises," and in accordance with the State Council's "Decision on Comprehensively Popularizing the Contract Responsibility System in Foreign Trade," we should comprehensively implement the foreign trade contracted responsibility system, work out policies to encourage export, readjust the export product structure, and improve the foreign trade operational mechanism. With foreign trade as the predominance, by integrating industry, agriculture, and technology with the demands of foreign trade, we should vigorously develop integrated enterprises with joint investments to promote the production and management of export commodities. We should rapidly establish a new foreign trade structure under which productive enterprises and export-oriented enterprises will be able to do unrestricted business, to engage in large scale import and export at any time, and will have a strong ability to meet changes on markets.

4. We should deepen the rural economic structural reform. In a certain period to come, we should effect changes in the following six aspects by focusing on the goal of accelerating the rural modernization of the municipality: We should change from product economy



to commodity economy; change from closed domestic-oriented economy to open economy; change from scattered management to management with an appropriate scale; change from extensive management to intensive management; change from backward agricultural technology to a modernized agricultural technology; and change from natural villages to cities and towns. We should continuously persist in the principles of "serving the cities and making the peasants prosperous," and attend to linking the urban reform with the rural reform. We should expand the scale of coordination among the production, supply and marketing of agricultural and sideline products. We should vigorously develop the integrated industrial-agricultural-trade enterprises, group enterprises which integrate urban areas with rural areas, and associations of enterprises.

5. We should gradually establish a macro-regulation-and control mechanism of a new type, continue to improve market the system, deepen commercial circulation structural reform, and fully display key cities' functions of serving as collection and distribution centers. We should develop the money market, invigorate the circulation of funds, readjust the credit structure and raise the results of the utilization of funds. Continued efforts should be made to open up and improve markets for the means of production, invigorate the circulation of materials and raise the circulation benefits of materials. We should actively promote the development and business of real estate, actively and steadily promote the reform of housing rent and commercialize residential houses, further reform the planning, financial, and tax revenue management systems, and promote the realization of the industrial policies through comprehensively using all kinds of economic levers. We should also implement the capital construction fund system, intensify the economic responsibility system in investment in fixed assets, gradually establish an indirect managerial macro-regulation-and control mechanism which mainly emphasizes economic and legal means, adopt definite administrative means, keep the essential direct control to regulate the relations between market supply and demands, and create a suitable external environment for microeconomic activities.

Political structural reform is a necessary demand for the deepening of economic structural reform. We should determine the tasks and progress of the political structural reform in line with the needs of the economic structural reform and the development of the socialist commodity economy. Political structural reform has a direct vital bearing on changing the functions of leading organs, streamlining organizations, and readjusting the cadre ranks and is more complicated than economic structural reform. Therefore, we should carry it out in a well-guided and orderly manner. In the days to come, our municipality's political structural reform should be

carried out around the immediate objective of implementing the leadership system in favor of raising efficiency, strengthening vitality, and mobilizing the enthusiasm of all quarters. While doing it, we should proceed from Tianjin's reality, and should carry it out in a resolute and prudent way.

1. We should separate party and government functions, comprehensively carry out and further improve the plant directors (managers) responsibility system, because it is the emphasis of the current separation of party and government functions. The plant directors (managers) should have a central position in enterprises and should assume the overall responsibility of enterprises' building of material and spiritual civilizations. Party organizations of enterprises should not play a unified leadership role as they did in the past. Instead, they should guarantee and supervise the implementation of the party and state's principles and policies in enterprises, and concentrate their main energy on strengthening party building, and do a good job in the ideological and political work as well as in mass work. The municipal party committee and the party committees of various districts and counties should conscientiously perform the five duties and responsibilities of local party committees stipulated by the 13th Party Congress, and guarantee that the people's congresses and governments of their same level, and mass organizations can fully exercise their function and that political and leadership role of their own localities will be resolutely displayed. The readjustment of party organizations and work organs should be studied comprehensively, prepared meticulously and implemented incrementally.

2. We should reform the government work organs. In line with the principle of simplified administration, unified action and higher efficiency, we should gradually establish a structural system to meet the needs of reform, opening up and social economic development of the coastal key city of Tianjin, grasp the key point of changing functions, and give priority to solving the issues of delegating powers to the lower levels, streamlining organs and personnel, overcoming bureaucracy and raising efficiency. It is necessary to arrange for personnel released from organs with a careful and prudent attitude. All communist party members working in the government organs, particularly the party's leading cadres, should adopt a positive attitude towards structural reform and contribute to steadily promoting political structural reform. We should further reform the management system of cities, expand their functions and raise their functions in managing and building cities and organizing the people's livelihood.

3. We should reform the personnel system related to cadres. We should implement the principles of stressing actual performance, encouraging competition, and conducting democratic and open supervision. We should evaluate and recommend cadres in a democratic manner, reward, punish, promote or demote cadres according to their work performance, and gradually establish a

competitive mechanism by which cadres can be promoted or demoted as required. Invitation of applications should be tried in recruiting new cadres. We should gradually create social conditions where personnel can flow rationally and have their choice of jobs.

4. We should improve the system of social consultation and dialogue. The general subject of the consultation and dialogue is correct handling of the contradictions among the people. We should take the initiative to adopt dialogue measures to correctly handle and coordinate contradictions in the interests of various sectors of people, urge leading organs and leading cadres to change their workstyles, make the activities of the leading organs more public, and enhance the masses's sense of and ability to participate in politics. Consultation and dialogue should be held on a regular basis to make sure that major situations are made known to the masses, and major issues are discussed by the masses. Consultation and dialogue should be held at different levels. Leading persons at various levels should hold direct dialogues with the masses, and the various strata, parties, organizations and masses of different professions should also hold frequent dialogues among themselves. When holding dialogues, it is necessary to guard against formalism, and see to it that a definite object is discussed, opinions are given frankly, solid work is done, and first-rate dialogue results are achieved with first-rate work.

5. We should strengthen socialist democracy and the legal system. The essence of socialist democratic politics is to let the people be the masters of the state, truly enjoying the various rights of citizens and the right to administer the state, and enterprises and institutions. To build the socialist democratic politics, we should set our sights on achieving actual results and on arousing the initiative of grassroots levels and the masses in the present stage, start with work that we can fulfill, and strive to improve the basic systems. We should strengthen work related to the people's congress to ensure and support the people's congresses at various levels and their standing committees to perform their functions according to law. We should give full play to the role of CPPCC committees at various levels, the various democratic parties, federations of industry and commerce, and mass organizations in our municipality's political life, and economic and cultural construction. Trade unions, CYL committees and women's federations should reform their organizational systems, change their activity measures, and carry out their work independently in line with their own characteristics. We should conscientiously strengthen the socialist legal system. Based on the needs in our municipality's economic construction, reform and opening up, we should step up efforts to formulate local rules and regulations, and detailed regulations for implementation of laws. We should deepen the education on the legal system to enhance the citizens' concept of law and their awareness in abiding by law. We should protect the legitimate rights and interests of legal entities and citizens, and punish the hostile elements who undermine the socialist system,

and persons who commit economic and other crimes. We should adopt comprehensive measures to tackle public security problems successfully, maintain a good social order, and consolidate and develop the excellent situation of stability and unity of our municipality.

#### **Party Leadership and Party Building**

The Chinese Communist Party is a great, glorious, and accurate party; a party armed with Marxism-Leninism-Mao Zedong Thought; and is a strong party which has long withstood all sorts of trials. In a large country like China, the unity among the people, the social stability, the economic prosperity, the cultural prosperity, and the unification of the state should all be based on party leadership. Under the new historical conditions, we must depend on party leadership to unify the thinking and force of the 1 billion population, and to realize the magnificent goal of socialist modernization. We must uphold the CPC leadership under any circumstances. This is an unshirkable fundamental principle.

Under new historical conditions, we must further change our concepts and leadership forms to uphold and strengthen party leadership.

We should accurately understand that party leadership during the new period mainly means the political leadership. Our present political structure was formed during the years of revolutionary war, and developed in the process of launching large-scale mass movements and constantly strengthening mandatory planning. It was suitable for that special historical condition and background. However, it seems increasingly unsuitable for the present situation where we are modernizing in the economic, political, cultural, and other fields under a peace environment. The party is different in nature and functions from the state political power organs, mass organizations, and various economic and cultural organizations; and, therefore, the party should not undertake and are unable to undertake all the work of these organs and organizations. Governing the country according to law and letting the people participate in the administration of the state will become important characteristics of our country's political life. The party has let the people formulate the Constitution and the law, and therefore it should launch activities within the limits of the Constitution and the law. If we continue to stick to the past leadership system, the party's leading position will be lowered, and the party's leading role will be weakened. Therefore, we must reform the present political structure. The key of the political structure reform lies in the separation of party functions from government functions. Through improving its leading system, organizational forms, and leading methods, the party should exercise leadership over political affairs, namely, political principles, political orientations, leadership over major policymaking, and recommendations of important cadres to the state political power organs. Changing from the situation of lacking distinction between the functions of the party and those of the government to the

situation of separating the functions of the party from those of the government is a major reform. We should fully understand that by establishing the new leadership system of separating party from government, the party will be able to actually extricate itself from the situation of undertaking all affairs of the government as well as enterprises and institutions, and then actually exercise its leadership over political affairs. In addition, the party will be able to concentrate its energy on improving itself and managing its own affairs; will be able to play its leading role in coordinating the work of all fields on the position of mastering various contradictions and vonopolyzing the overall situation; and will be able to strengthen the supervision over various fields, and enhance its force to struggle against bureaucratism.

Giving full play to the vanguard and exemplary role of party members is an important form to realize party leadership. Our party is a big one. In our municipality alone, there are 560,000 party members, who are working for various fronts and various units. Quite a few party members are holding leading posts at different positions. The party's common will should be manifested by the united actions of all party members, and the party principles and line should be implemented through the vanguard and exemplary role of all party members. Communist party members' exemplary role in fulfilling all party tasks is an invisible strength and a silent call for the broad masses of people. Our party is in a ruling position and faces the new environment of reform and opening up. Each and every communist party member should clearly understand their own responsibility and role, enhance their sense of honor and mission, be resolute to faithfully serve the communist cause, use the party's basic line to guide their own ideology and action, and work earnestly to realize the common ideal of the present stage. They must persist in the party's purpose of wholeheartedly serving the people, properly handle the relations between the benefits of various quarters and be happy to contribute to the state and the people. They must have a strong sense of reform and opening up, emancipate their minds, pioneer their road of advance, outstandingly fulfill all their tasks, conscientiously perform the obligations defined in the party constitution, strictly confine themselves with party discipline, dare to struggle against all negative corrosive phenomena, strive to master skills in building the four modernizations, painstakingly study cultural and scientific knowledge, and realistically raise their own levels and ability. Party organizations at all levels should act in line with these demands, conscientiously assume responsibility for grasping education for party members, set forth specific demands on them in line with the work of various stages, conduct conscientious appraisal, commend the advanced to promote the backward, create necessary conditions, enable communist party members throughout the municipality to better play their vanguard and exemplary role, and unceasingly intensify their fighting strength.

Discovering, training and recommending cadres is the important tasks of the party's political leaders. To meet

the demands of the municipality's modernization construction, reform and opening up, we must establish a rank of cadres of political integrity who are young, better educated and professionally competent, and leading bodies at all levels that are full of vigor and vitality. We should have courage to use a group of cadres who have both political integrity and ability, who are just and honest and can realistically contribute to reform and opening up and who are acknowledged and trusted by the masses. It is necessary to form cadre and personnel affairs work organs conducive to the appearance of all kinds of outstanding trained personnel at all levels, and enable cadres on all fronts and in all quarters to better display their role. We should comprehensively and correctly understand and implement the party's "four requirements" for cadres' work, properly handle the relationship between diplomas and performance and between knowledge and ability, and guard against one-sidedness. We should further replenish, improve and properly readjust the leading bodies at all levels, and allow cadres at all levels to receive training in party schools and other kinds of specialized schools in an effort to enhance their political awareness, theoretical accomplishment, professional skills and cultural level.

To uphold and strengthen the party's leadership under the new historical conditions, we should strengthen the party's building with a spirit of reform.

It is necessary to strengthen the building of party style. The issue of party style is one concerning the life and death of the ruling party. To keep a close relationship between the party and the people and to guarantee the smooth progress of reform and opening up, we must strive to build our party style well. Regarding the issue of party style, we should analyze it on a scientific basis. On the one hand, while new systems are replacing the old, soil to cultivate unhealthy trends exists within the party because the legal system and the regulating mechanism are not perfect, and policies are not coordinated. On the other hand, we should also note that in the process of reform, opening up and developing the socialist commodity economy, new methods and new trials have emerged, and we should not sweepingly regard them as unhealthy trends. In our endeavor to correctly understand and solve problems in party style, we cannot divorce ourselves from reform and opening up. We should analyze new problems with the new concepts on reform and opening up, and conscientiously study ways to improve party style through deepening reform and improving systems and institutions. Generally speaking, the major trend of our municipality's contingents of party members is good, the overwhelming majority of party members are active and loyal in serving the masses, and are capable of struggling against the numerous negative and corrupt phenomena. We should also remain clear-headed to note, however, that there are indeed a small number of party members, including party-member leading cadres, who are engaged in such unhealthy trends as power abuse for selfish gains and

bureaucracy to varying degrees. They have affected relations between the party and the masses, damaged the party's reputation, and posed a conspicuous problem widely talked and complained about by the masses. We should pay great attention to this. On the one hand, we should intensify the ideological education within the party, carry forward the party's fine traditions, improve the quality of party members and strictly enforce party discipline. On the other hand, we should accelerate and deepen reform, establish and improve the various systems, and gradually reduce the soil on which unhealthy trends are cultivated. At present we should start with solving problems which dissatisfy the masses the most, and concerning which rules and regulations are fairly adequate. In short, we must exert great efforts to successfully study and solve the problems in party style, let the work to improve the quality of party members last through the entire process of reform and opening up, and enable all party members, in particular party-member leading cadres, to stand the test of power, reform, and opening up; perform their duty honestly; pioneer a cause through arduous work; and shoulder the heavy tasks of reform, opening up, and modernization.

We should strengthen the organizational building of the party. The most important work in organizational building is to set strict demands on party members. Because the communist party members are the advanced elements of the working class, we should not lower the standard for party members at any time, and relax the demands on them. When recruiting new party members, we should uphold the standard for party members, and should not one-sidedly emphasize the number. Party members who do not perform obligations stipulated in the Party Constitution, and fail to make corrections despite education should be persuaded to withdraw from the party, or be expelled from the party. We should strictly enforce party discipline, and manage the party strictly. Party discipline is a reliable guarantee for implementing the party's line, principles, and policies; an effective weapon to safeguard the party's unity and solidarity; and an important prerequisite to maintain the advanced nature and purity of the party. We should adopt the principle of resolute elimination to deal with corrupt elements who seriously violate law and discipline, and should never be soft-hearted toward them or tolerate them. We should pursue the responsibility of people who connive and shield law and discipline violations within the party. The party's discipline inspection departments should concentrate their efforts on party discipline enforcement, and assist party committees to improve party style. Party committees at various levels should support the work of discipline inspection departments, and ensure that they fully perform the functions and powers stipulated by the Party Constitution. We should conscientiously strengthen and improve party systems. We should conscientiously improve the systems of collective leadership and democratic centralism, and establish and improve the rules for discussion, the voting system, and the system of holding democratic meetings. We should earnestly conduct criticism and self-criticism.

Starting with the standing committee of the municipal party committee, we should establish a system whereby the standing committee of the municipal party committee gives a work report to the plenary sessions of the municipal party committee, we should properly increase the number of plenary sessions held by the municipal party committee every year, and give full play to the role of the plenary sessions of the municipal party committees. We should establish and improve the various systems on democratic supervision, guarantee the democratic rights that party members can exercise within the party according to the stipulations of the Party Constitution, and provide more opportunities for party members to understand and directly participate in party affairs. Leading party organs at various levels should guide and help the party's grassroots organizations to carry out their regular work successfully in line with the requirements of the 13th Party Congress.

We should intensify the ideological education of the party. We should conduct regular and in-depth education on the theory of the initial stage of socialism, the party's basic line, and the basic knowledge on the party among party members, so that the masses of party members can become vanguard fighters who initiate the struggle to fulfill the party's tasks, and who are better-educated and self-disciplined models with lofty ideals and moral integrity.

Party leading cadres at various levels should study Marxist theory; go deep into the reality of life to conduct investigations and study; master the Marxist stand, viewpoints, and methods to observe, analyze and solve problems; and more successfully combine Marxism with reality in construction and reform. We should improve the party's contingent of theoretical workers. We should encourage theoretical workers to go deep into the reality of life; conduct theoretical explorations; invigorate theoretical study; provide answers to questions emerging in reform, opening up, and the four modernizations; and research the theory and practice on party building in the new conditions. Theoretical workers and those engaged in practical work should cooperate closely, learn from each other and make up each other's deficiencies, conduct joint research, push the party's theoretical work forward, and study and enrich Marxism during practice.

In the new historical conditions, we should greatly strengthen and continuously improve the party's ideological and political work.

"To grasp the ideological education is the central link in uniting the entire party to wage great political struggles. If this task is not fulfilled, all the political tasks of the party cannot be fulfilled." (Mao Zedong: "On Coalition Government") This is an epitome and summary of the experiences in the several decades of Chinese revolution led by our party. Our party has the fine tradition of attaching great importance to ideological and political work, and has accumulated a series of valuable experiences in carrying out this work successfully. Ideological

and political work has played a major role in the prolonged revolution and construction. In the current new historical conditions, it has more important immediate significance that we continuously strengthen and improve the party's ideological and political work. Following the development of the socialist commodity economy and the deepening of urban and rural reforms, a complicated situation has emerged in the adjustments of the relations of various sectors in terms of interests. Whether or not we can properly handle this issue has a direct bearing on the feelings of the people of various strata. There is no doubt that we should adopt economic, legal, and administrative means to adjust the relations of various sectors in terms of interests in order to arouse the people's enthusiasm. However, we should also exert influence and clarify the people's ideological understanding through strong ideological guidance and multi-layered moral standards to ensure the smooth progress of reform and opening up. In the entire process of greatly developing the commodity economy, the tasks for ideological and political work become heavier instead of lighter, and should be upheld and strengthened instead of canceled and weakened. We should foster the idea that carrying out attractive and strongly cohesive ideological and political work is one of the important characteristics of the socialist society of our country, and an important task bearing the overall situation that our party should conscientiously fulfill.

At present, ideological and political work is confronted with a new social environment. During the initial stage of socialism, the focus of our work is to change our poverty and backwardness and vigorously develop productive forces. In a considerably long period of time, we should develop and economy with diverse forms of ownership, with the public ownership predominating; should implement diverse distribution forms, with the form of distribution according to work predominating; should permit the existence of reasonable differences in individual income; and should encourage competition among various social members. As the ideology and morality of the superstructure, the diverse forms of ownership and distribution system will inevitably bring about a diversified and multi-layered economic basis and production relation. The comprehensive implementation and deepening of reform has enabled the people to strengthen their sense of commodity economy, their sense of democratic politics, and their sense of competition. Opening to the outside has enabled us to break with the closed state, import advanced world technologies, managerial experiences and scientific culture, and broaden our field of vision. Along with the changes in the urban and rural cultural structures and with the improvement in people's material living standards, people's thinkings have been brisk, their democratic sense has been enhanced, and their thirst for knowledge, beauty, and pleasure has become even stronger. Under such circumstances, the all-people ideological and moral building and the ideological and political work must undergo reform or improvement in structure, content, and methods so that they can adapt themselves to the

changes in political, economic and social lives, and to the changes in the thinking and cultural quality of the people. At present, ideological and political work is in the period when the old systems are being substituted with new ones or are being changed to new ones. During this period, we are just exploring, and cannot clearly understand which systems should be carried on, which systems should be improved, which paths are already ripe, and which paths are just undergoing experiments. During this period for making explorations and changes, party organizations at all levels, political work departments, administrative departments, scientific and educational departments, cultural and art departments, and press and publishing departments should all strive to go deep into the reality of life to conduct investigation and study, to conscientiously sum up experiences, and to create various kinds of effective forms and specific ways through repeated appraisals and comparisons. Over the past few years, party organizations at all levels and political work cadres throughout the municipality have done much fruitful work, accumulated some fresh experiences, and created some new trains of thought. The work in this regard must be carried out continuously.

1. We should define the guiding ideology of respecting, understanding, showing concern over, and loving others. Marx and Engels pointed out: communists look forward to a society where individuals can develop themselves comprehensively. (See "German's Ideology") Over a long period of time in the past, under the "left" guiding ideology, we unduly intervened in aspirations and interests of individuals, thus causing a negative influence. In conducting ideological and political work during the new stage, we must foster the following guiding principles: Within the limits permitted by the Constitution and the law, and on the premise of not violating the social moral standard and the standard for public behavior, we should permit and encourage individuals to have their aspirations, hobbies, and goals, and should provide necessary ground and conditions for the development of individuals. By regarding the ideology of respecting understanding, showing concern over, and loving others as the basic point of the ideological and political work, we should fully mobilize the people's enthusiasm, initiative, and creativity, and should try every possible means to make still more people happy and satisfied with their situation, and enable the people at all levels to display their wisdom and intelligence in building the four modernizations.

2. We should promote all kinds of educational, cultural and service activities. In a developing and rising society, the people's life should be more colorful. A socialist society should like this more. Since the people of different social strata have different needs, our work methods should be different at all levels so that the ideological and political work will become more attractive. We should adhere to the Marxist ideological education, and disseminate socialist ideology to the people. However, we should discard the empty, stereotyped party writing and simple and rigid methods. We should use the masses'

immediate experience and the forms which they like to conduct ideological and political work and imbue the recreational activities, cultural study, scientific popularization activities and all kinds of services with ideological education, and, through all kinds of colorful activities, enable the masses to be philosophical and theoretical inspired and favorably influenced in their hearts and sentiment. In addition, we should help the people distinguish between right and wrong, raise awareness, foster correct ideology and rise to a spiritual realm.

3. We should promote democracy and equality and the work method of bilateral exchange. Ideological and political workers should foster the workstyle of proceeding work from an equal status and discussing and consulting issues jointly, and break the strict limits between the educators and those to be educated. Through sincere and frank talks and exchange of views, we can form a good climate and atmosphere in which the people can communicate and be mutually educated, improve understanding and friendship between leaders and the masses, between party and nonparty members and among people of various social strata, and induce more people to consciously receive the party's guidance. The establishment of the social consultation and dialogue system put forward by the 13th Party Congress is not only one of the important measures for building democratic politics but is also an effective method for conducting ideological and political work. During the process of strengthening and improving ideological and political work, we should persist in continuously carrying out the consultation and dialogue system and support it with the practice of holding heart-to-heart talks, family visits, democratic discussions and receiving people's visits and other educational forms.

4. We should form a new pattern of integrating the efforts of full-time and part-time personnel and managing work jointly. Under the situation of separating party and government functions, it is difficult for party members and full-time political work cadres to handle ideological and political work alone. We should display the role of all quarters; integrate the management of personnel, affairs, and ideology together; and gradually form a new leadership system for handling ideological and political work. In the grassroots units, particularly in enterprises, we should establish as soon as possible an ideological and political work network which allows administrative leaders to assume responsibility, considers party and government cadres as the mainstay, and encourages the joint management of the party, government, trade unions, CYL organizations and all functional departments. This demands administrative cadres at all levels to study and master the skills to grasp both the ideological and political work. In addition to using administrative and mandatory means and economic means, they should also use ideology to mobilize the masses and use ideology education to organize the masses to fulfill their tasks in all fields. The ideological and political work in the new period is a huge project involving all of society, and an important task for it is to

organize a gigantic contingent of ideological and political workers. This contingent should include party and government leaders at various levels, and full-time and part-time political work cadres; teachers of various categories of schools; personnel engaged in press and publication, radio and television broadcast, culture and art, and theoretical study; workers engaged in popularizing science; and heroic and exemplary persons on various fronts. Based on their own advantages, they should fully perform their functions, and carry out various forms of social education activities to extend ideological and political work to the people's spare time and to the various fields of society.

Comrades! Convocation of this party congress opens a new chapter in Tianjin's socialist modernization. The past brilliant achievements were scored by the people, and new history chapters will still be written by the people. We should arouse and give full play to the socialist enthusiasm, initiative, and creativity of the workers, peasants, intellectuals, and people of various strata throughout the municipality, and enable the people to truly become masters who promote the development of history. The masses of commanders and fighters of the garrison district and people's armed police forces have made outstanding contributions to defending the motherland, supporting our municipality's construction, and safeguarding public security. We should continue to strengthen army-government and army-civilian unity, render great support for the modernization of the army, and give full play to the role of the PLA, militia, and reserve forces in building the material and spiritual civilizations of our municipality. We should continue to adhere to the principle of "long-term coexistence, mutual supervision, treating each other with all sincerity and sharing weal and woe," further expand the patriotic united front, successfully carry out the work concerning nationalities, religion, and overseas Chinese, and mobilize and unite all patriotic forces to promote the great cause of the reunification of the motherland and socialist modernization with concerted efforts.

Comrades! We are now in a great period of change, and are engaged in a cause not undertaken by our predecessors. Our tasks are arduous, our future is bright, and Tianjin is full of promise. Communist party members, cadres at various levels, and people of various nationalities throughout the municipality must unfailingly implement the line of the 13th Party Congress, take economic construction as the central task, uphold the four cardinal principles, carry out reform and opening up persistently, unite as one, work diligently and in a down-to-earth manner, actively make progress, and advance bravely to build more quickly a new Tianjin with socialist modernization!

## FINANCE, BANKING

**Reform Brings New Financial Era**  
*OW2805015788 Beijing XINHUA in English*  
0758 GMT 27 May 88

[Text] Beijing, May 27 (XINHUA) — Reform and the open policy have ushered in a new era for the growth of China's banking industry, according to a vice-governor of the People's Bank of China, China's Central Bank.

The total deposits of the bank and credit cooperatives in rural areas in 1987 are six times the 1979 figure, the "CHINA DAILY" today quoted Vice-Governor Qiu Qing as saying.

"The amount of loans being granted has quadrupled," she told the Third International Forum of Savings Banks here Thursday.

In the last nine years, she said, China has set up a monetary system of division and cooperation, with her bank taking the lead.

National banks have played an important role, while insurance and other financial policies have become the main tools for the government to control its macro-economy.

The people's Bank of China uses such methods as limiting the lines of credits, a deposit reserve system, interests on loans and currency control so as to achieve a good command.

In the course of the banking reforms in China, the largest city bank, the Industrial and Commercial Bank of China, has played an important role.

Zhang Xiao, president of the bank, told the forum that her bank has 24,000 branches and 400,000 staff members. It possessed total assets worth 440 billion yuan at the end of 1987, up 36 percent over 1986.

With its business turnover accounting for 60 percent of the banking business in China, the bank has been readjusting its lending focus and pursuing a benefit-oriented lending policy.

It has loaned 3,400 billion yuan in the last four years, focussing on big and medium-sized enterprises in energy, transport, raw materials and the textile and light industries.

In 1984, it introduced a foreign exchange service in the three Special Economic Zones of Shenzhen and Zhuhai in Guangdong province, and Xiamen in Fujian Province.

A. Janson, president of the International Savings Banks Association, attended the three-day forum. He spoke to his Chinese colleagues about the world's new banking environment and the functions of savings banks.

He said the role of the savings banks is to meet the broad consumer needs for bank services; to create increased financial freedom for private consumers; to safeguard the interests of the savers, and to be a strong competitive factor in banking.

## INDUSTRY

### Yunnan Industrial Output

40060279a Kunming YUNNAN JINGJI BAO in Chinese 18 Apr 88 p 1

[Excerpt] In the first quarter of 1988, the gross value of industrial output in Yunnan Province was 4.117 billion yuan, a 16.6 percent increase over the same period in 1987.

## SMALL-SCALE ENTERPRISES

### Role of Township Enterprises in Export-Oriented Economy

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 18 Mar 88 p 1

[Article by Zhang Yi [1728 3015]: "Seize the Opportunity To Face the World—On the Participation of Township Enterprises in Major International Exchange and Competition"

[Text] China is an agricultural nation—a poor nation of over 1 billion people, 800 million of whom live in the countryside and earn their living primarily with hand tools. We are a populous, resource-poor nation. Right now the task facing us is to convert two-thirds of the agricultural population over to secondary and tertiary industrial occupations and achieve industrialization and modernization.

The state of the nation is such that transforming the rural labor force depends primarily upon developing township enterprises. Since the 3d Plenum of the 11th CPC Central Committee, and particularly since 1984, township enterprises have become a prominent new force in China: an unstoppable force that has developed rapidly and vigorously. As of the end of 1987, township enterprises had already absorbed 85 million laborers from the surplus rural labor force. In coastal regions township enterprises have absorbed over 70 percent of the total rural labor force. Currently township enterprises in coastal regions are facing three prominent problems. One problem is that most township enterprises are engaged in a few processing industries, and as they develop they begin to compete with state-run enterprises for production materials. "Wool wars" and "silkworm cocoon wars" arise. This is especially true of processing industries that rely on agricultural raw materials. If this problem is not resolved in an appropriate manner, the equipment and workers in each sector will be unable to function at peak capacity. The second problem is that township enterprises in the three deltas and two peninsulas are well-established, but to a large extent must compete for resources and market their products in inland markets in various provinces. If these regions do not vigorously pursue an export-oriented economy and develop enterprises that have "two external orientations," they will inevitably restrict the development of inland township enterprises, and township enterprises



on the coast will come into conflict with those in the hinterland. This kind of conflict has already become evident in recent years. The third problem is that although the surplus agricultural labor force in coastal regions, especially the three "deltas," has already converted to township enterprise, and although township enterprises in these regions are well-established, products are low-grade and there are few high-quality goods. In today's highly competitive domestic and overseas markets, if we do not adopt new objectives and higher standards, not only will it be difficult to maintain developmental momentum in these enterprises, it will even be hard to preserve their current status. Under these circumstances, proceeding from the high level of national economic development in China, General Secretary Zhao Ziyang conducted a research survey and proposed a strategy for developing an export-oriented economy in the coastal regions of China. The main points of this strategy are as follows: We must take advantage of the favorable opportunity the international economic situation has provided us and make the best use of advantages available in the coastal regions of China—abundant labor resources, high quality, low costs, a strong scientific and technical contingent, a good industrial and agricultural foundation, accessible information, and relatively convenient communication and transportation links with the outside world. With these we should develop labor-intensive industries, as well as industries and processing industries that are both labor-intensive and knowledge-intensive, and set up "two external orientations." Raw material sources and product sales should both be centered on the international marketplace, and we should import and export large quantities of goods. The focus of foreign capital use should be on attracting direct foreign commercial investment, and we must vigorously develop "enterprises with three sources of capital."

In implementing this strategic policy, leading government cadres make the following observations: "Township enterprises are the strategic starting point for developing an export-oriented economy"; "We should climb to a new benchmark and enter the ranks of export-oriented economies"; "Using primarily township enterprises," we should produce labor-intensive exports to capture the international market; and we should call into play "fresh troops by using exports to create foreign exchange earnings." The whole body of cadres and workers in the front lines of township enterprises should accept the historic responsibility laid before them and the great trust placed in them by the central government and the State Council. We must lose no time in changing our strategy. We must face the world and actively develop an export-oriented economy.

12510

## FOREIGN TRADE, INVESTMENT

### Officials From Western Provinces on Zhao's Coastal Strategy

40060172b Beijing RENMIN RIBAO in Chinese  
2 Apr 88 p 3

[By reporter Wang Jin [3769 6210]: "People's Congress Representatives From Western Provinces and Autonomous Regions Discuss the Strategy of Coastal Area

Economic Development, Plans of Action and Expectations Revealed"]

[Text] China covers a vast area, and there is uneven economic development between the eastern and western regions.

According to data provided by the State Statistical Bureau, in 1986 the 11 provinces, municipalities, and autonomous regions of the eastern section of the country created 856.2 billion yuan in industrial and agricultural output value, the 9 provinces and autonomous regions of the central section created 443.6 billion yuan, and the 9 provinces and autonomous regions of the western section created 212.6 billion yuan.

The disparity between the eastern and western areas is obvious.

The "Government Operations Report" presented by Acting Premier Li Peng at the First session of the Seventh People's Congress proposed that we expeditiously implement the strategy of coastal area economic development. This was encouraging to the people of that area. But what attitude does the western region have toward implementing this coastal strategy? A few days ago, this reporter interviewed some of the People's Congress representatives from the western provinces and autonomous regions who were staying at the Jingxi [0079 6007] Hotel.

On the evening of 28 March, Ningxia Hui Autonomous Regional Chairman Bai Lichen [4101 4539 1820] forewent watching a volleyball match and was waiting in his room well in advance for this reporter.

He likened implementing the strategy to "a play about to be staged." He said, "When the curtain rises on this strategy, of course the coastal area will play the 'leading role' at stage front. We of the western region should willingly assume the 'supporting role,' and act as understudies. The coastal area will take the lead in moving toward the international market, and in actively participating in international exchange and competition, in accordance with the reality of China's national conditions and economic development. But any developmental strategy certainly must be impartial in nature; the strategy of developing the economy of the coastal area also will affect the interior. We in Ningxia are genuinely and sincerely willing to support the coastal area in expeditiously developing an export-oriented economy.

Qinghai Provincial Governor Song Ruixiang [1345 3843 4382] felt that implementing the strategy could bring new opportunities to the western region on the one hand, and also would provide a severe challenge. If the western region had no new plan of action, the disparity between the western region and the eastern coastal area would become even greater.



"What action plan does Qinghai have in the face of this new development strategy?" this reporter asked.

Song replied, "For the near term, we will make immediate preparations in two areas: one is to continue to enhance geological prospecting, to draw up a priority list of resources for development, and to undertake preliminary work on comprehensive exploitation; the other is to strive to increase enterprise economic return, fund accumulation and personnel training, and to prepare to accept the transfer and dissemination of coastal area technical and managerial experience."

Gansu Provincial Governor Jia Zhijie [6328 1807 2638], at a People's Congress Representative group discussion, talked about his own views. He said, "First, we should utilize our own strengths, increase finish processing on a large scale, and raise the market share of the province's goods in markets both within and outside the province. Perhaps we should cap imports at export levels, come up with export substitutes, sell to the coastal area in return for foreign exchange, and import the technology and equipment the province needs for industrial development. Second, we should capitalize on the opportunity for resource exploitation resulting from existing fluctuations and raw material shortages in the international market production, supply, and sales system, open up completely to the coastal area, and permit the establishment of raw material supply bases in Gansu which are either wholly foreign-owned or Sino-foreign joint ventures. Third, Gansu has a surplus labor force in excess of 2.3 million, so we must fully utilize the opportunity which the coastal area labor market affords us, export labor services, and do more in the way of helping the needy and shifting the work force."

Xinjiang is a "rich household" in the western region. Its 1986 per capita national income was 714 yuan, which was first in the western region, but this "pales" when compared to the developed coastal area. In talking about implementing the strategy of coastal area economic development, the Autonomous Regional People's Government Vice Chairman Huang Baozhang [7806 1405 3864] said, "Xinjiang has exceptionally abundant resources; there are plentiful crops of cotton, melons, and grapes above the ground, and many kinds of ore beneath, and we are richly endowed by nature with tourist attractions. At the same time as supporting the strategy of coastal area economic development, Xinjiang also will capitalize on its inland borders and abundant natural resources, and actively open to the outside in many directions. We can open both to the outside world and to the coastal area, as well as to the western and central regions, and thereby promote development of the Xinjiang economy and reduce the economic disparity with the coastal area."

Huang told this reporter that in order to accelerate opening to the outside, Xinjiang, supported by the state preferential policy, is now undertaking various capital construction projects as quickly as possible.

This reporter witnessed the expectations of the western region from the perspective of its action plans.

12513

#### **State Patent Bureau Chief on Need for Better Laws**

40060172a Beijing RENMIN RIBAO in Chinese  
1 Apr 88 p 4

[By reporter Wang Xiyuan [3769 3305 0337]: "State Patent Bureau Chief Gao Lulin Emphasizes Opening to Outside Requires Better Understanding of Invisible Commodities"]

[Text] Today, 1 April, marks the third anniversary of the implementation of China's patent laws. State Patent Bureau Chief Gao Lulin [7559 4159 7792], in an interview with this reporter, emphasized that in order to implement the strategy of developing an export-oriented economy in the country's coastal areas, we must pay special attention to developing the patent system.

Gao said that developing a socialist commodity economy is an important task for China at the present stage. Commodity economy development in the world today has arrived at a period where commodities clearly fall into two large classes: one is visible, material commodities, and the other is invisible, technical commodities. Moreover, since the pace of scientific and technological development is picking up day by day, the quantity and function of invisible commodities, namely technology trade, are increasing as well. Visible commodities have a concrete form and since they take up space, property rights are easily recognized; on the other hand, property rights for invisible commodities are easily overlooked. In order to protect these invisible commodities, that is, property rights that derive from invention, to recognize their worth and use value, and to enable them to be circulated in domestic and foreign markets, the same as visible commodities, and not be infringed upon without compensation, nations have enacted patent laws, and some uniform international provisions gradually have emerged. In the last 3 years, China has received applications for 63,000-plus patents from home and abroad, of which more than 10,000 have been granted. Incomplete statistics from 15 provinces and municipalities show 1.6 billion yuan in newly added output value since patents were introduced, and more than 200 million yuan in income taxes.

Gao said that opening to the outside world requires us to develop an export-oriented economy in the coastal areas, so we must acquire a better understanding of invisible commodities, be adept at applying patent laws, employ patented technology as much as possible, and increase the added value which export products derive from patented technology. In order to actively attract foreign investment, we also must continually improve the investment climate, obviate foreign company concerns by conscientiously applying patent laws so they can

transfer technology to China without apprehension, and without worrying that patented technology will be disseminated illegally. Attracting foreign investment and advanced foreign technology requires legal guarantees.

Gao said that to realize the strategy of coastal area economic development, we also must be fully cognizant of patent information and understand international markets, especially the international technology market. None of the large foreign companies have enormous patent departments; in formulating patent strategy, they concern themselves with patent applications and developmental activity in relevant technical fields as required. While China's coastal area enterprises must infiltrate the international market, they also must examine patent documents, and understand whether or not their products infringe upon the property right protections of others in the areas to which they plan to export. Furthermore, they must apply for patents in the countries targeted to receive exports, to protect future markets for products which the Chinese enterprises themselves have developed.

12513

**Shanghai Invites More Foreign Investment**  
*40060230b Shanghai WEN HUI BAO in Chinese*  
*06 Mar 88 p 1*

[By Zhu Guangming [2612 0342 2494] and Chen Wei [7115 1919]: "Majority of Shanghai's 90 Foreign Invested Projects Announced During Eighth Congress Involve Fairly High-Level Technology"]

[Text] Shanghai is further opening the door to foreign investment. The Shanghai Municipality leadership group for utilizing foreign investment announced yesterday at the current session of the foreign trade symposium that this year the municipality attracted foreign investment for 90 planned projects, 3 times as many as last year. According to official report, Shanghai is currently looking into ways to reduce red tape and decentralize authority to accelerate assimilation of foreign investment; it will allow qualified enterprises to directly or indirectly capitalize on foreign-invested compensation trade, and welcomes foreign investment to enable Shanghai's established enterprises to pursue technological transformation or run production or export-oriented wholly foreign-owned enterprises.

The investment climate in Shanghai has been improving this year. Based on the provisions (16 clauses) announced last year to encourage foreign investment, the Shanghai Municipal Government has adopted a series of preferential measures for foreign-invested enterprises for water, electricity and gas supply, communications services, credit funds, taxes and worker recruitment. Foreign investment in Shanghai has increased dramatically. Statistics as of the end of February this year show there were 303 foreign-invested enterprises in this municipality; 212 of these were Sino-foreign joint ventures, 88

were Sino-foreign contractual joint ventures, and 3 were wholly foreign-owned enterprises. These enterprises absorbed \$1,857,000,000 in foreign investment. Most of the 153 enterprises of these three types which have begun operating have turned profits and enjoy foreign exchange credits. A few joint ventures experiencing quick returns already have recouped capital outlays.

The 90 projects announced at this time fall into eight industries, including machinery and electrical equipment, instrument electronics, chemicals, pharmaceuticals, light industry, textiles, and construction materials. Most of them involve fairly high-level technology. In addition businesses which are capable of producing new equipment, materials, or goods suited to domestic and foreign market requirements and which have not been produced in China before; businesses producing an export product which is in demand on the international market and which improves our product quality; businesses which can open up new foreign markets and earn more foreign exchange through exports; and businesses which can advance product performance, reduce consumption, increase productivity, and raise technical and economic returns, provide products of advanced technology and products for which there is a critical domestic need all welcome foreign businessmen to come to Shanghai and invest.

12513

## LABOR

**Discussion on Principle of 'Distribution According to Work'**

*40060240 Shanghai SHIJIE JINGJI DAOBAO in Chinese*  
*18 Apr 88 p 15*

[Article by Liu Ji [0491 0679]: "The True Meaning of 'Distribution According to Work'—Again on the Question of Balance Between Total Supply and Total Demand"]

[Text] Is a diamond-shaped consumption pattern contradictory to the socialist principle of distribution? No. On the contrary, it is exactly what the socialist principle of distribution is supposed to accomplish. Socialism is not egalitarianism, and the socialist principle of distribution is distribution according to work. What, then, is distribution according to work? Is China's present wage system based on distribution according to work? These are not abstruse theoretical questions, but practical ones.

**Time To Restore the True Meaning of Distribution According to Work**

Under the capitalist system, the capitalists become millionaires and billionaires by exploiting the working masses and grabbing their surplus value and live in luxury and extravagance. That, of course, is not distribution according to work. The bourgeoisie enriches itself on other people's toil, causing acute contradictions and

class antagonism in society. The socialist revolution is to deprive the exploiters of the surplus value they have grabbed from the exploited, and let the workers enjoy the fruit of their labor. In this sense, socialism stands for distribution according to work, which is what makes it incomparably superior to capitalism. However, after solving the capitalist contradiction, socialism is inevitably faced with a new problem of its own: How is the principle of "distribution according to work" to be put into practice among the workers in a socialist society? For a long time, this question has been ignored. People assume that with the elimination of the capitalists, distribution according to work automatically comes into effect. Thus, even though "distribution according to work" remains a slogan, people feel satisfied and become boastful, and no serious effort has ever been made to study and find the way to turn the slogan into practice. Our wage system is highly subjective and arbitrary. Can anyone explain how the wages of, say, a worker and a professor are determined? Most socialist countries were established on a backward economic basis with little or no large-scale socialized production. Therefore, the people are deeply influenced by the egalitarian ideas of small producers. On the other hand, the lofty goal of common prosperity for all workers has inspired generation after generation of revolutionaries to devote themselves to the socialist cause. The result is a merging of the publicly professed lofty goal with the latent ideological influence of the small producers. What should be determined scientifically is, instead, determined by good and moral intentions alone. Under the banner of distribution according to work, we have actually practiced egalitarianism. It is time that we restored the true meaning of distribution according to work.

#### **Relative "Distribution According to Work" Under the Capitalist System**

If distribution is to be made according to work, it follows naturally that it should not be subjective and arbitrary. How can work be appraised objectively? It is scientifically impossible to calculate the value of each kind of work. Such a calculation would involve many assumptions, and assumptions are bound to be subjective and arbitrary. A really objective appraisal should meet two standards:

1. It should conform to the Marxist theory on productive forces. Judging by one's contribution to developing the social productive forces, the more one works, the more one gets paid.
2. It should be tested in practice in large-scale socialized production.

The economically developed capitalist countries are ahead of us in the area of large-scale socialized production. Their practical experience is worth our serious analysis using Marxist theory.

After the capitalists take their undeserved lion's share mentioned previously, how is the remainder distributed among the workers under the capitalist system? Under capitalism, labor is a commodity. In a commodity economy, the exchange of equal values is the indisputable principle. The capitalists will never pay any worker a penny without getting something in return. For every cent they receive, the workers must do a certain amount of work and create a certain amount of surplus value for the capitalists. Higher wages are paid to those from whom the capitalists can squeeze out more surplus value. Therefore, in capitalist countries, workers are paid under a system of relative "distribution according to work." I think this is a generally acceptable conclusion. Tested and gradually improved in practice over several hundred years, this system of "distribution according to work" has become one of the basic forces propelling the capitalist economic growth in the present era.

How do the wages of workers in different fields compare with each other in the capitalist countries? Of course, this is an extremely complex social phenomenon, but at least it seems to go by the following rules:

1. On the average, a mental worker makes at least twice as much as a physical worker. This is in line with Marxist theories.
2. Because physical work is simple work, it is easy to measure or calculate. Thus, by the adoption of piece-rate wages and so forth, capitalism has embraced the principle of "distribution according to work."
3. Among the mental workers, those engaged in productive work generally are better paid than the others. Among the productive mental workers are scientists who create potentially productive forces in the form of scientific knowledge, technological experts who turn scientific knowledge into actual productive forces and products of use value, and administrators and managers who transform the products into tens of thousands of commodities for public consumption, thus turning the actual productive forces into social productive forces. Therefore, the wages paid them by the capitalists are different. In the United States, for example, a college professor generally earns \$30,000 to \$50,000 a year; a senior technical specialist in a large corporation often makes more than \$100,000 a year; and the highest paid are managers of enterprises whose salaries range from \$200,000 to \$300,000 or even more each year. Former Ford Motor Company president Iacocca has an annual salary of \$1 million, but that of the U.S. President is no more than \$200,000. These examples are typical.

It should be pointed out with emphasis that it is exactly this kind of distribution that has created an enormous middle class and a diamond-shaped consumption pattern in today's capitalist society, which has played an active role in the steady growth of the capitalist economies.

Socialism has eliminated bourgeois exploitation. Workers should enjoy the fruit of their labor. If the principle of "distribution according to work" is put into practice in an even better way than it is practiced under the capitalist system, the workers at all levels under the socialist system should have greater enthusiasm, initiative, and creativity than their capitalist counterparts, each working according to his ability and, as Lenin put it, creating an even higher level of labor productivity than is possible under the capitalist system. A socialist economy should grow faster and bring greater prosperity than a capitalist economy, and the living standards of our workers at all levels should eventually surpass those under the capitalist system. But, our problem has stemmed precisely from "distribution according to work."

#### China's Wage System Not Really Distribution According to Work

Now, let us take a look at the relative levels of distribution among workers in China today.

First of all, the respective levels of distribution for physical and mental workers has been reversed. For 30 years, this "reversal" has been supported by the widely publicized viewpoint that only physical labor is productive and creates wealth. As a result, some weird phenomena have persisted which run counter to the principle for developing the productive forces. For example, a doctor is paid less than a barber; designing guided missiles is less profitable than peddling tea-boiled eggs in the street; the old professor who has taught all his life is not doing as well as his children and grandchildren who work as taxi drivers; and so forth. This kind of distribution is theoretically and practically contrary to Marxism. It is something forced on Marxism by the traditional small producers' ideology.

Secondly, among physical workers, remuneration is based on trades, rather than the amount of work, which is against the principle of distribution according to work, not to mention such unwritten rules as remuneration based on seniority, and so forth. Even between trades, the difference in distribution is based not on labor intensity, but on oversimplified concepts. A female textile worker has a strenuous job, but she is doing "light industrial work" and ranks low on the wage scale. In contrast, the worker whose job is simply pushing buttons on an automatic control panel is in a higher pay grade because he is in "heavy industry."

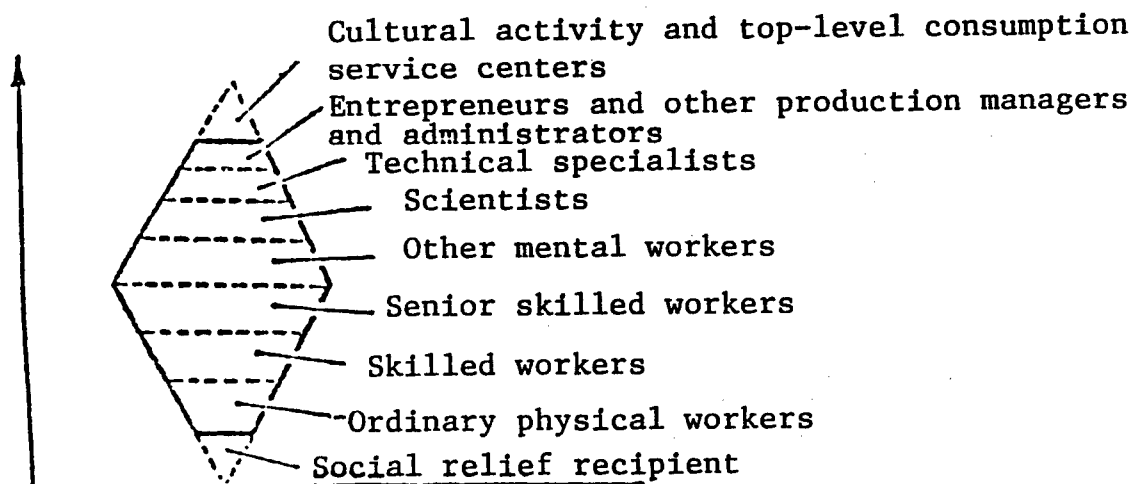
Thirdly, between mental workers, the difference in pay is again not based on their contribution to the development of productive forces. Not only are the technical specialists in factories paid lower wages than college professors and scientists, but managers and administrators, as public servants, are paid even less.

It is obvious that China's wage system is not really distribution according to work, but purely subjective and arbitrary egalitarianism. It has resulted in our long-standing rectangular consumption pattern and perpetual imbalance between total supply and total demand.

#### Top Priority for Changing Consumption Pattern in Current Reform

Therefore, to change China's rectangular consumption pattern, it is imperative to thoroughly reform its present wage and distribution system and really implement the socialist principle of distribution according to work so that a diamond-shaped consumption pattern can be achieved. Unless a breakthrough is made in this direction, it is impossible to get our reform programs out of the series of dilemmas which are now showing and getting worse. Unless the level of consumption is raised, and the people's living standard is improved, the people

#### Consumption Capacity



will lose interest in the reforms, and success of the reforms will be impossible. But, increasing consumption can grow out of control, which will immediately cause serious supply shortages and rising prices, and the people will become even more disillusioned with the reforms. The reform in this area must be carried out successfully. Otherwise, no real progress can be made in other areas of reform, and even if we have made some progress, we will be forced to fall back because of the confusion that has resulted. Isn't this the reason why the reforms have moved in a seesaw fashion and kept changing programs in the past few years?

Of course, our socialist diamond-shaped consumption pattern cannot be simply a copy of the capitalist pattern. The internal structure of our diamond-shaped pattern should be different. On the one hand, it should be based on communist principles and moral standards, and there should not be such a wide gap between the rich and the poor as in capitalist countries. On the other hand, it should be suited to China's present production capacities and standards, and consideration should also be given to the levels and composition of workers in China. An important question here is who will be in the top consumer group? It is inconceivable to artificially make a number of individual 100,000-yuan and 1,000,000-yuan households at present.

I think China's socialist diamond-shaped consumption pattern should be structured internally as in the following diagram. Of course, the structure is only relative, and there can be some overlap between layers. And, of course, those who have made special contributions in each of the layers are not included here. 12802

## TRANSPORTATION

### Developing Hainan's Transport Infrastructure

#### Qian Yongchang on Highways, Ports

40060207b Beijing JINGJI RIBAO in Chinese  
8 Feb 88 p 2

[Article by Wang Haitao [3769 3189 3447]]

[Text] Qian Yongchang [6929 3057 2490], minister of communications, said recently during an inspection tour of island transport services that to meet Hainan's needs in preparing to become a province and opening to the outside world, top priority should be given to developing the island's transportation facilities.

Qian Yongchang pointed out that most of Hainan Island's harbors are within 100 to 200 km from its economic centers, which is ideal for highway transportation. Considering the island's geography and the distribution of its resources, industry, agriculture, and tourist attractions, the importance of highway and water transport services is obvious in Hainan's development as a showcase of the open policy.

On the overall plan for future development of Hainan Island's transport services, Qian Yongchang said: Externally Hainan Island should rely mainly on water transport, and internally mainly on highways. Efforts should be made to build a transport network with three north-south main highways, four east-west highways, and seven seaports including Haikou on all sides of the island, each road and seaport serving specific purposes while all developing in a coordinated way.

On water transport, efforts should focus on speeding up the construction of large, medium-sized, and small wharves and berths at the seven seaports and on developing fleets of passenger and cargo ships.

He pointed out: While setting ambitious goals in construction scale and speed to create a sound investment environment, attention must also be paid to Hainan's actual conditions in building the infrastructure, which should be based on necessity and feasibility and should proceed simultaneously with the externally oriented construction projects, so that greater economic results can be achieved for the investment.

#### Extending Western Loop Railroad

40060207b Beijing JINGJI RIBAO in Chinese  
8 Feb 88 p 2

[Article by Su Tingli [5685 1694 4409] and Dong Xuechang [5516 7185 2490]]

[Text] To speed up the development of this precious island, railroads should lead the way. The Hainan Railway Co is raising funds to extend the Western Loop Railway to link Yaxian, Dongfang, Changjiang, Danxian, Chengmai, Qiongsan, Haikou, and other counties and cities. When that happens, people can board a train from Haikou for a tour of more than half the island. A survey team composed of more than 200 people from the Guangzhou Railway Bureau Designing Institute and the Ministry of Railways Second Designing Institute arrived in Changjiang County a few days ago to begin surveying and work on construction designs.

At present, Hainan has only about 200 km of railroad between Sanya (Yaxian County) and Changjiang County. With the island's rapid economic development, the existing railroad is far from meeting demands. Therefore, the Hainan Railway Co has decided to raise funds to extend the Western Loop Railway. The extension project will be carried out in two phases. The first-phase construction will extend from Chahe in Changjiang County to Nada in Danxian County, 79 km in length. Construction will begin on 1 May 1988 and is scheduled for completion in 1990. The second-phase construction will extend from Danxian County to Haikou City, 109 km in length. Efforts will be made to complete the second phase in 1992. In the meantime, a 60-km branch line will be built from Danxian to Yangpugang. The entire Western Loop Railway will be extended by 248 km. A total investment of 430 million yuan will be

required. The Hainan Railway Co will use 100 million yuan of its own accumulated funds for the construction. The rest will be raised from loans and foreign investment.

### **Railroad To Extend to Seaports**

40060207b Beijing RENMIN TIEDAO in Chinese  
28 Feb 88 p 2

[Article by Han Taikang [7281 1132 1660]]

[Excerpt] Hainan will soon become a province and the site of China's largest SEZ. The island, which covers an area of more than 33,000 sq km, is drawing worldwide attention as an investment "hot spot." Some shrewd and enterprising railroad men became interested. They were convinced that transport is of vital importance to Hainan's development, and that the extension of the island's Western Loop Railway from Chahe to Haikou is to begin soon. Seeing the opportunity, the Ministry of Railways' Second Surveying and Designing Institute, in the western Sichuan plain, wasted no time in sending its men to the island. Negotiations went smoothly, and a contract was signed on 1 November 1987 with the Guangzhou Railway Bureau's design department and the Hainan Railway Co for the surveying and construction designs of the Haikou-Chahe section of the Western Loop Railway.

The economic and social benefits in extending the Western Loop Railway are obvious. In the near future, the Western Loop will link up Sanya, Basuo, Yangpu, Macun, and Haikou with five major seaports in the western part of the island, serving also 11 other counties and cities along the line and stimulating the area's industrial and agricultural production. In the farther future, the Western Loop Railway will be linked by ferries across the sea to the railway line between Zhanjiang and Haian, where it will gain access to the nationwide railway system. Then, Hainan will be able to develop much closer economic ties with the mainland and put an end to its economic isolation.

The Hainan Railway Co, a unit at the subbureau established in May 1987, is a small fry in the country's railway family. Yet it has put forward a railroad-construction

principle which makes a lot of sense: "A railroad should earn its own keep, move on its own power, and raise its own funds for development." Some people call it the "Western Loop model."

Whether or not it can be called a new model is a matter of opinion, but the courage and vision demonstrated in the reform are admirable. The Chahe-to-Haikou section of the Western Loop Railway totals 188.2 km in length and will cost an estimated 340 million yuan. The first phase of construction will extend from Chahe to Nada, and the second phase from Nada to Haikou. The entire project is scheduled for completion in 1992. At present, the Ministry of Railways Second Surveying and Designing Institute and the Guangzhou Railway Bureau Designing Institute are hard at work to implement the Hainan Railway Co's Western Loop project. Designs for the major projects of the first-phase construction will be completed by the end of April this year, and all construction design materials will be delivered in September. At the same time, the three parties are united in their effort to get the second-phase construction started in the first half of this year. To keep pace with Hainan's development, the first-phase designs and construction work will proceed simultaneously, and construction is scheduled to start in May this year.

It is not easy to raise 340 million yuan. The Hainan Railway Co had really done some hard thinking before deciding to go ahead with the project despite the difficulties. Zhong Guoxian [6988 0948 2009], the company's manager, said: "At a time when Hainan is to become a province and set up a SEZ, everyone is asking for money, and it is impractical for the Western Loop project to rely entirely on state financing. However, roads are made by men. Difficulties can be overcome, if we try hard enough." He disclosed that since the Hainan Railway Co was established on 1 May 1987, it has been given the green light by the Guangzhou Railway Bureau in many ways, among them the authorization for it to charge special rates, and the company is doing very well. It fulfilled and overfulfilled its passenger and freight transport tasks in October and early December respectively last year, and accumulated 15 million yuan in construction funds. By making an effort, it can raise 100 million yuan by 1992. All this money will be used on the Western Loop project. The remaining 240 million yuan will have to be found from loans or foreign investment.

12802

**Reduced POL Consumption on Vietnam Border**  
40050267a Beijing JIEFANGJUN BAO in Chinese  
22 Apr 88 p 2

[Excerpts] All levels of POL departments on the Laoshan frontline have boldly changed past POL management methods of "reimbursing actual consumption" and adopted a trial rationing system. According to statistics provided at the Chengdu MR POL accounting conference in mid-March, while still ensuring supply for combat needs, POL consumption in 1987 was 700 tons less than the previous year, representing savings of 4.9 million yuan.

**Examples of Major Losses Suffered by PLA Enterprises**

40050267b Beijing JIEFANGJUN BAO in Chinese  
21 Apr 88 p 1 [Summary] Major losses suffered by production enterprises in three PLA organizations show that it is necessary to study commodity economics before blindly entering the marketplace. In January 1985, a certain regiment in the Shenyang Military Region lost 150,000 yuan on an investment of 200,000 yuan in less than 4 months when its efforts to raise ducks collapsed due to a glutted market and low prices. In the Junggar Pendi, a farm belonging to a Xinjiang Military District hospital lost more than 100,000 yuan in the spring of 1986 after digging four fish ponds which proved unable to hold water. A depot in the Shenyang MR lost 50,000 yuan after its packaging plant set up in 1985 went bankrupt early this year; the staff lacked technical expertise and their products were outmoded.

**He Qizong on Strengthening Border, Coastal Defense Militia**

40050185a Beijing ZHONGGUO MINBING  
[CHINESE MILITIA] in Chinese  
No 10, 9 Oct 87 pp 4-5

["Summary" of speech by He Qizong [0149 0366 1350]: "Adapt to the New Situation and Conscientiously Strengthen the Building of Border and Coastal Defense Militia; Report by PLA Deputy Chief of Staff, He Qizong, at the National Conference on Border and Coastal Defense Militia Work (Excerpts)"; date not given]

[Text] Since the Third Plenary Session of the Eleventh CPC Central Committee, the party Central Committee has paid full attention to the border and coastal defense struggle and to the building of the two civilizations in border and coastal defense, and has formulated correct policies and principles. Its basic spirit is, in the border defense struggle, proceeding from the maintenance of long-term stability in China's four modernizations and from the peaceful international environment, to maintain normal border procedures, to preserve border tranquility and stability, and to develop good-neighborly and friendly relations; and also to heighten vigilance, defend the border areas, defend the national boundary; and safeguard the border areas' security. We must accelerate

the cause of building socialism in the border areas, as fast as possible change their poor and backward appearance, and build China's border areas into true bastions of iron. For a period of time in the future, the guiding ideology and the fundamental task for strengthening border and coastal defense militia work will be: conscientiously implement the principles and policies of the party Central Committee, State Council, and Central Military Commission concerning border and coastal defense work and militia building; be subordinate to the overall situation in state economic construction; persist in readjustment and reform; handle well the basic building of border defense militia; improve the militia's defensive capability; and make good preparations for dealing with sudden incidents and regional conflicts. Also, lay a foundation for meeting the needs of a future war against aggression, actively take part in the building of the two civilizations, and make contributions to the building and the defense of the border areas.

**A. Adjust to the New Situation in Which There Has Been a Big Reduction in the Active Units, and Strengthen in a Focused Manner the Building of Border and Coastal Defense Militia**

Proceeding from the overall situation in state economic construction, the border defense units have made fairly large readjustments and reductions. To adapt to this new situation, we must further readjust and reform border and coastal defense militia work, focusing on strengthening militia building in the first-line counties (cities) and important areas, on strengthening border and coastal defense, and on enhancing the rapid reaction capability and overall defensive capability of border defense militia.

**1. Improve Militia Organizations and Build a Contingent of Core Members of the Militia That Meets the Needs of the Border and Coastal Defense Struggle**

Core members of the militia are the backbone force of the border and coastal defense militia, and are the objects of wartime mobilization and also the focus of border and coastal defense militia work in peacetime. In principle, the proportion of key members of the militia in the population should be higher on the border and coast than in the interior, on islands, in pastoral areas, and in sparsely populated minority nationality regions. To improve the rapid reaction capability of militia in the border and coastal defense areas, we may, in the border and coastal defense first-line counties (cities) and townships (towns), based on actual need organize emergency fendui from among the organizations of core members of the militia.

**2. Handle Military Training Well, and Improve the Operational Capability of Border and Coastal Defense Militia**

The military training of border and coastal defense militia must be based on existing equipment, keep in mind operational needs, be in line with the principle of training soldiers in the kind of war they will fight, be conscientiously implemented, and also be given key support in materiel, equipment, and funds. Based on the actual situation in border and coastal defense, we must adjust and arrange the training tasks, train more in the border and coastal defense first-line counties (cities) and train less in the interior, train more in areas with a heavy combat-readiness mission and train less in ordinary areas. Based on the different circumstances in border and coastal defense and on the missions that the militia will probably be assigned, we must increase the focused nature of the training. With regard to the objects of training, we must give prominence to handling well the training of cadres with special fighting skills, militia cadres, and fendui composed of core members of the militia that are assigned emergency missions in order to improve their organization and command capability and their operational capability. Proceeding from reality, we must adopt many kinds of training forms and methods. Each first-line county (city) should have a militia training base, which should be suitable for the centralization of the training, and militia training should be carried out as much as possible at the base. Where it is inconvenient for the county (city) to be the unit for centralized training, the form of "delimiting parts and fixing points" may be adopted. In grassland and pastoral areas, mobile training centers can be set up to carry out the training. Units jointly composed of army, police, and militia should make full use of the military units' teaching facilities and handle well the link-up training with them.

### 3. Adjust Militia Weapons and Equipment Well, and Conscientiously Enhance Management

The weapons and equipment of the militia in border and coastal defense areas have been readjusted many times, and the overall situation in this respect is now good. The main mission in the future is, in accordance with the needs of the militia's original readjustment, military training, guard duty, and combat preparedness, to further readjust and strengthen them so that the quality of the militia's weapons and equipment in these areas is improved, their variety and composition are fairly appropriate, and they constitute a definite firepower system. The storage methods for militia weapons in border and coastal defense areas certainly must meet the needs of the struggle against the enemy and the combat readiness and guard duty. We must further enhance the management of weapons and equipment to prevent the occurrence of accidents. With regard to individual storage of militia weapons and equipment, there must be fixed persons, fixed guns, and fixed responsibility. In peacetime the guns and ammunition must be stored separately, and loss or theft strictly guarded against. We must further strengthen and perfect all rules and regulations and regularly supervise and inspect, so that the weapons and equipment are kept in a good technical state and so that safety is insured.

### 4. Enhance the Political Education of Militia and Improve Their Political Quality

The political education of border and coastal defense militia must be based on their positions and missions, must be integrated with all-people education and with the building of spiritual civilization, and must be carried out side by side with militia work. For a period of time in the future, the border defense areas must give prominence to the militia's education in revolutionary ideals and discipline, education in patriotism and revolutionary heroism, and education in border area policies and the unity of nationalities.

### B. Vigorously Coordinate With Regular Military Units in Guarding Border and Coastal Defenses, and Handle Well Combat Preparedness and Guard Duty

#### 1. In Strict Accordance With the Military Commission's Principles and Policies, Coordinate With Regular Military Units in the Struggle Against the Enemy

The militia's struggle against the enemy must be conducted resolutely and in accordance with the principles and policies of the party Central Committee and the Central Military Commission and with the overall plan, so that the border military struggle serves the needs of the political and diplomatic struggles.

#### 2. Handle Well Army-Police-Militia Joint Defense and Improve the Overall Defensive Capability

In defending the border areas, we must display the strength of all quarters, organizing in a unified fashion in the border and coastal defense areas the Army, Navy, Air Force, People's Armed Police, militia, public security departments, frontier inspection stations, and the fishing administration; twist them into one length of rope; and form an important organizational form for an overall defense system with the military units as the backbone, with the militia as the foundation, and in which forces on all sides coordinate closely. The provinces, prefectures, counties, and townships must uphold the army-police-militia joint defense system, perfect its organization and leadership organizations, make clear the focus and the division of work in joint defense, formulate a joint defense plan, and perform the necessary drills.

#### 3. Strengthen the Building of Militia Sentry Posts and Give Full Play To Their Role

All places may, based on actual circumstances, separately set up year-round fixed sentry posts, seasonal sentry posts, and sentry posts that perform both production and militia duties. We must handle well the building of the basic foundation. The year-round fixed sentry posts have fairly good defense works, means of observation, living facilities, and a certain capability for self-support. The building of the sentry post militia ranks must be enhanced. We must vigorously create conditions



for launching activities of sentry posts supporting sentry posts, fully display the comprehensive results of sentry posts, and improve the material and cultural life of guard duty militia.

#### 4. Undertake the Mission of Guarding Important Targets To Insure Their Security

For a period of time in the future, the border defense militia will still be charged with the mission of guarding some important state targets and national defense work. In line with the principle of strictly controlling the number of men on guard duty, having strict examination and approval procedures, and having whoever makes use of militia pay money, make a readjustment of the militia charged with the mission of guarding important targets. As much as possible, militia are not to be used if it is possible not to use them, but if there is a need to use militia to guard something the number of militiamen must be strictly controlled. We must enhance the education of guard duty militia and strictly control them, so that they are devoted to their duties, stand fast at their posts, observe discipline, and insure the security of the targets that they guard.

#### C. Conscientiously Study the Question of Troop Mobilization for a Regional Conflict, and in a Planned Manner Do Good Preparatory Work for Troop Mobilization in Key Areas

After the strategic change was made in the guiding ideology for China's national defense construction, the armed forces' combat-readiness work mainly consists of making good preparations for dealing with sudden incidents and regional conflicts that could occur. In this, troop mobilization is an important aspect.

#### D. Vigorously Arouse and Organize Militia To Cure Poverty and Create Wealth in Order To Contribute Their Strength to the Building of Prosperous, Powerful Border Areas

People's armed forces departments at all levels in the border and coastal defense areas must make it their important task to arouse the militia to take part in the building of the two civilizations, to cure poverty and create wealth, and to change the appearance of the border areas.

#### E. Enhance the Leadership Over Border and Coastal Defense Militia Work, and Handle Well the Building of People's Armed Forces Department Cadres

The key to enhancing the building of border and coastal defense militia is leadership. Each large military region must make border and coastal defense militia work a strategic task, conscientiously enhance the leadership over it, engaging in both active unit construction and reserve forces construction, and conscientiously study how to solve major problems in militia work. The relevant professional departments must, in accordance with the division of work and with each attending to its

own duties, truly manage work related to border and coastal defense militia. Each branch and arm of the service must, based on its own characteristics, vigorously coordinate with people's armed forces departments at all levels in doing good militia work. The main mission of provincial military districts and military subdistricts is to do militia and reserve work—this is an important principle stressed time and again by the Central Military Commission. Provincial military districts and military subdistricts must both get a good grip on border defense unit work and do good militia and reserve work. Provincial military districts and military subdistricts must on their own initiative vigorously act as good staff officers for the party committee and government at their own level, timely giving them practical and feasible suggestions in order to get the local party committee and government to lead and support militia work.

In enhancing leadership, an important and urgent question at present is the strengthening of the building of county (city) people's armed forces departments. After the county (city) people's armed forces departments reverted to the local organizational system, the overall situation has been good, but some problems exist, prominently manifested in: Some provincial military districts and military subdistricts want to "let go" of the county (city) people's armed forces departments and are unwilling to manage them; some county (city) people's armed forces departments want to "cast off the hook" and not submit to the higher-level military organization's leadership; and work standards have greatly fallen, a fact that has adversely affected the development of work. It should be pointed out that although the county (city) people's armed forces departments have reverted to the local organizational system, the nature of their militia work and their mission have not changed, the system of dual leadership by the local party committee and government and the military department has not changed, and the relationship between the provincial military district and military subdistrict on the one hand and the people's armed forces department on the other remains one of higher level and lower level, of the leader and the led.

We cannot, because of the change in the organizational system for the people's armed forces departments, slacken or weaken the military departments' leadership over the work of the people's armed forces departments. From now on the provincial military district or military subdistrict must regard the county (city) people's armed forces department as its own subordinate unit, and, just as in the past, strengthen its leadership over the county (city) people's armed forces department, make strict demands on it, and boldly manage it. At the same time, we must also pay attention to improving work methods, regularly asking the local party committee and government for instructions and reporting to them on work, and dredging work channels, so as to adapt to the new situation after the people's armed forces departments reverted to the local organizational system. We must take seriously the building of the ranks of people's armed

forces cadres; take the initiative to coordinate with the local party committee and government in handling well the training, selection, utilization, management, rewards and penalties for people's armed forces cadres; fully arouse their enthusiasm; and take effective measures to insure that the people's armed forces cadres put their main time and effort on doing militia and reserve work. In accordance with the relevant stipulations on people's armed forces cadres made by the party Central Committee, State Council, Central Military Commission, and relevant departments, we must properly solve the actual problems of people's armed forces cadres. We must enhance the professional training of people's armed forces cadres in order to raise their professional level and improve their work capability, making them familiar with both military work and economic work. We must educate the great number of people's armed forces cadres to ardently love their work, to be determined to strike root in the border areas and do armed forces work, and to make contributions to economic construction and militia construction in the border areas.

We must handle well the regularization of the county (city) people's armed forces departments, and see that they are managed in accordance with the demands of Central Document No 5 (86) and with reference to the rules and regulations of the armed forces. We must integrate them with local reality, set up and perfect all sorts of rules and regulations, insist on making strict demands, get a tight grip on the unity of training, make inspections at regular intervals, and establish a regular sequence for combat preparedness, training, work, and life. Through hard work over several years we will strive to build the county (city) people's armed forces departments into fighting collectives in which the quality of cadres is fairly good, the relations between top and bottom are smooth, organizational discipline is strict and impartial, and work is intense but orderly, in order to meet the need for strengthening the building of border and coastal defense militia.

We must strengthen the building of the ranks of full-time people's armed forces cadres. We must continue to thoroughly implement the 1984 "Notice on Questions Pertaining to the Principle of Establishing Basic-Level Armed Forces Departments and Providing Them With Full-Time People's Armed Forces Cadres," which was issued by the Organization Department of the CPC Central Committee, the Ministry of Civil Affairs, the Ministry of Labor and Personnel, the PLA General Staff Department, and the PLA General Political Department. In accordance with the stipulations of these five central departments and ministries, we must set up basic-level people's armed forces departments well and must not dismantle or merge them at will. With regard to the places where full-time people's armed forces cadres are under establishment, we must bring them up to strength. The number of such cadres that need to be replaced or added is to be provided by the annual newly added cadre quotas in these places. We must enhance the

management of full-time people's armed forces cadres, be concerned for their work and life, and help them resolve their actual difficulties.

09727

#### Dual Role of Reserve Forces

40050185b Beijing ZHONGGUO MINBING  
[CHINESE MILITIA] in Chinese No 12, 9 Dec 87 p 1

[Article by Zheng Bingqing [6774 3521 3237], deputy chief of staff of the Nanjing Military Region: "The Strategic Position of Reserve Forces"]

[Text] A deep understanding of the strategic position and role of building reserve forces in the period of peace, and truly putting it in its proper place—this meets the needs of the strategic change in the guiding ideology for building national defense

Central Document No 22 (1985) pointed out: "Under the current circumstances in which the state is concentrating its forces on building a socialist modernized economy and the active units have been cut by a large amount, we must take more seriously the building of national defense reserve forces. It should be seen that combining a crack standing army with powerful reserve forces is the only way to build a modern national defense." Switching the main point of national defense construction from the past brink-of-war state for "fighting an early, big nuclear war" to construction in a period of peace does not in the slightest mean that we will only engage in economic construction and will not engage in national defense construction, or that we will wait until the economy is developed before engaging in national defense construction. It also does not mean that we will only engage in armed forces construction and will not take seriously reserve forces construction; on the contrary, the strategic change in the guiding ideology for national defense strategy has raised the strategic position and role of reserve forces construction to a new height.

**First, the dual position of the reserve forces as a "front army" and "reserve army" of the armed forces is more prominent.** In a period of peace, no country can or needs to maintain a huge standing army that can meet the needs of an entire war. Even a superpower like the United States makes reserve duty an organizational part of its armed forces, and also regards reserve duty as a key point in armed forces construction. The combination of a crack standing army and powerful reserve forces may be said to be the common choice of all countries now, a choice that is both realistic and very far-sighted. The historical characteristics and central task of China in the new period, the streamlining and reorganization carried out by the armed forces after the strategic change in the guiding ideology for national defense construction, and a series of reforms, against the background of the era, the national condition, and the national defense strategy, show the necessity and correctness of this choice. In peacetime to maintain fewer troops and in wartime to

dispatch more troops and good troops—this is the central mission bestowed on reserve forces construction by the strategic change. The strategic change in the guiding ideology for national defense construction greatly raises the reserve forces' dual position as an important front army for national defense modernization and as a powerful reserve army of the PLA.

Second, the reserve forces' dual role as the "builder" and the "defender" of the four modernizations is more important. "The foundation of armor and weaponry must be laid before those of fields and houses." "Ample food and ample weaponry are the tools for ruling the land." The strategic change correctly handles the relationship between a strong army and a rich country, and at the same time shows clearly the correct policy for reserve forces construction. Militia and reserve personnel must be both good builders of the four modernizations and good defenders of them. This dual mission is worthy of the militia and reserve personnel. In 1986 alone, in China 57,700 militia were assessed as outstanding producers because of their success in work; more than 190,000 poor households, because of the aid given to them by the militia, took off the "cap" of poverty; more than 39,000 members of the masses afflicted by natural disasters and in distress and a large amount of property were saved by the militia; 18,970 militia received commendations from public security departments because they cracked criminal cases, pursued and captured escaped criminals, and defended public order; and 4,114 militia demonstration points in building civilization were assessed as advanced units in civilization by the county (city) people's governments where they were stationed. The viewpoint that holds that after economic construction is made the center the militia no longer needs to engage in it and the viewpoint that holds that reserve forces construction is bound to hamper and strike against economic construction are without foundation.

Third, the dual function of reserves forces as a "combat force" and a "deterrent force" for containing struggles and defending peace is clearer. In past wars against aggression and in revolutionary wars, China's militia played a major role and demonstrated a definite combat capability. Since the 3d Plenary Session of the 11th CPC Central Committee, China's reserve forces have made "four changes," namely, in organization changing from a single arm to many arms, in weapons and equipment changing from a single variety to many varieties, in military training changing from mainly training infantry to mainly training specialists, and in troop reserves changing from single-arm reserves to combined-arms reserves. The reserve forces now have a considerable number of specialized fendui in antiaircraft artillery, field artillery, antiaircraft machinegun, communication, engineer, chemical defense, reconnaissance, and other arms, and they are at a certain tactical level. Reserve units that have active duty officers as their backbone and that have a higher degree of militarization than that of militia have been formed. From a look at the situation in

their organization, equipment, training, quality, as well as guard duty and participation in battle, China's reserve forces possess a definite combat capability. In the long-term construction of the future, this combat capability will be constantly improved. In the period of peace, the reserve forces are in themselves a deterrent force and one of the important factors for containing wars of aggression and defending peace. No matter who wants to launch a war of aggression against China, he cannot but think thrice about facing China's powerful regular army, and also cannot but weigh up the mobilization potential of China's reserve forces. In a situation in which the source of war has not yet been eradicated and in which peace must be striven for and won, the reserve forces' dual function and the positive effect they produce cannot be underestimated.

09727

#### Group Army Improves Training

40050183b Beijing JIEFANGJUN BAO in Chinese  
8 Feb 88 p 1

[Article by Cai Yunwu [5591 0061 7497] and Li Changsen [2621 2490 2773]: "A Group Army Sets Up a Training Responsibility System for Leaders At and Above Regiment Level"]

[Text] The Year of the Dragon is coming, and the dragon's head is the first to rise up. After New Year's Day, leaders at all levels of a certain group army of the Nanjing Military Region, braving severe cold, went to the units to get a good grip on military training, causing an intense troop-training situation to arrive early on the training grounds. This is a gratifying change brought about by the group army's establishment of a training responsibility system for leaders at and above the regiment level.

In January of last year, the leaders of this group army led work teams that gave proficiency examinations to several dozen fendui cadres at the battalion level and below in two of the army's regiments and one of its brigades. The result was that in three of the subjects examined about half of the cadres failed. The group army's party committee then decided to set up a training responsibility system for leaders at and above the regiment level, and, starting with grasping the exemplary role of these leaders, to do military training in the period of peace well and improve the units' combat effectiveness. The main points of this training responsibility system are: take part in and organize the main training activities; timely find out the situation in training and solve the key and difficult problems in training; lead and take part in military theory studies and research, and integrate them with the training reality and the writing of academic articles; and make regular reports on one's own training work to the higher level. Organizations at the regiment level and above also set up responsibility systems linked with training fendui. The group army's party committee at the same time stipulated in explicit terms: link the

rewards and penalties in the utilization of cadres with the marks in training of leaders at all levels, with their capability to organize unit training, as well as with their units' marks in training.

The establishment of the training responsibility system has enhanced the sense of responsibility of cadres at and above the regiment level for strengthening the units' military training in the period of peace. The members of the group army's party committee took the lead in carrying out the training responsibility system. Leaders at the division and regiment levels, in strict accordance with the demands of the training responsibility system, thoroughly implemented it point by point. Last year the proportion of comprehensively trained companies in this group army exceeded the demands stipulated by the PLA General Headquarters, and the group army drew out more than 700,000 yuan from production results and used the money for military training. The great majority of the division and regiment leaders set about writing training reports to the higher level at regular intervals, and they also wrote a number of military academic treatises of fairly high quality, six of which won prizes at the first all-PLA military academic discussion meeting held in November of last year. From top to bottom in the group army there has appeared the good atmosphere of "training for honor and making the training of crack troops a meritorious service." Last year the best marks over the past several years were scored in this group army's military training. In the first part of January, 14 division and regiment leaders whose marks in education and training were outstanding were awarded prizes.

09727

**Reform of PLA's Operating Mechanism,  
Organizational Structure**

40050183a Beijing JIEFANGJUN BAO in Chinese 5  
Feb 88 p 3

[Article by Wang Junli [3769 6746 6849], Tang Xinqiang [3282 2450 1730], and Guo Xuegong [6753 1331 1562]: "The Key Is the Reform of the Existing Operating Mechanism"]

[Text] The reform of the existing operating mechanism in the PLA and the readjustment of the PLA's structure have become the most important links in the deepening of reform.

Before proposing the reform of the PLA's existing operating mechanism and structure, it is necessary to give a conceptual explanation of the PLA's political system and operating mechanism. The PLA's political system is its fundamental system. It stipulates the PLA's fundamental nature and the common, general criteria that the PLA must follow. For example, there is the aim to serve the people wholeheartedly and the principle that the party commands the gun. This is the fundamental guarantee for the PLA's mobilization of national defense. It certainly must not be weakened, and even less must it be

shaken. It is also something that we should pay attention to first when we are reforming the armed forces' existing operating mechanism and perfecting their existing structures. The operating system is the PLA's internal parts such as the leadership system, organizational setup, subordinate relationships, limits of jurisdiction, personnel system, and the sum total of various scales of systems formed by specific systems and specific forms in various aspects. It is the specifically manifested forms and the methods adopted in the PLA's political system. There are three fresh characteristics in the operating system. First, it is subordinate to and serves the political system; second, the widely existing relations between the various factors that make up the operating mechanism play a direct, important role in the development and building of the armed forces; and third, the operating mechanism is controlled by the objective environment, is easily subjected to ageing and deformation, and is unstable. These attributes determine that it is designed by the political system that it abides by and the operating mechanism comprehensively formed in the objective environment. Under the circumstances in which the political system will basically remain unchanged, the factor determining that the operating mechanism will constantly change is the often-changing objective environment. Therefore, the operating mechanism must constantly adapt to the demands of a changed new situation before it can insure the effective realization of the political system. Reviewing the PLA's history, we see that the constant change in the armed forces' operating mechanism account for a large number of sections and chapters in the history of the PLA's development. After the strategic change was made in the guiding ideology for building the PLA, modernization became the PLA's central task, and thus a timely reform was required in the PLA's operating mechanism and organization.

The formation of the PLA's existing operating mechanism and structure has deep historical roots. Generally speaking, this operating mechanism and organization emerged from the womb of the war years, and was established under the threat of imperialism. It grew up amid large-scale mass political movements. It was set up under the dominance of the idea of fighting an early, big nuclear war. At the time when the revolutionary wars, which were like violent storms, were just ending, the Central Military Commission wisely put forward the idea of building a powerful national defense force. Centering on the needs of state economic construction, it cut a large number of units; put into effect compulsory military service, the military rank system, the military officer speciality system, and a series of other political systems; and set up various types of colleges and schools, spread science and culture, and promulgated rules and regulations for regularization. This made the PLA quickly change from the era of war to the period of peace, and it was charged with the heavy responsibility of defending the country. In the 30 years since then, the PLA's operating mechanism and structure maintained the style it had in the early stage of the founding of the PRC. The frequent political movements caused the PLA

to make fruitless approaches. This caused the PLA's existing operating mechanism and structure to have a foundation in the Soviet model of the fifties, the remnants of Lin Biao's idea in the sixties of "giving prominence to politics," and the vestiges of the irregularities of the war years. A huge number of personnel and comparatively inferior weapons and equipment were the obvious characteristic of the PLA, this armed force. Even if in this period a large number of officers and men shed a lot of sweat in hard work and obtained successes that no one can deny, to this day the PLA's backward features have not fundamentally changed. Among the many reasons for this state of affairs, the inappropriateness of the existing operating mechanism and structure is an extremely important reason. In the face of the situation that has already developed, if we tightly embrace the original operating mechanism and do not let go of it, this will mean only writing an article on "consolidation" and in the end problems can only get more serious as they pile up.

After we crossed over to the track of building the armed forces in a period of peace, the existing inadaptabilities between the current operating mechanism and structure on the one hand and the requirements for building the armed forces in a period of peace prominently manifested themselves. First of all, there is the inadaptability to the needs of the forms of warfare that had already developed and changed. Although the cut of 1 million servicemen was a big step in the direction of obtaining crack troops, the original operating mechanism and structure still exist, a fact that makes it impossible to root out the soil for the growth of a huge number of personnel, and the foundation for the path needed for "crack troops" has not yet been fundamentally laid. In the PLA's establishment and structure, there is still no new component necessary for the special purpose of fighting "small wars." Once a regional conflict breaks out, it is highly probable that we will simply use quantity to make up for our inadequacies in quality. Second, the existing operating mechanism does not meet the demands of the general task of state economic construction. Speaking of the current situation in which organizations are huge, the relationship of "supply and demand" between the military colleges and schools on the one hand and the military units on the other is not yet smooth, and the inappropriate system continues to maintain the present number of personnel, a number that could be cut. This situation means that a considerable part of the limited military expenditures can only be used to "support the family and eke out a livelihood," and cannot be used for the key point of armed forces modernization. The unsoundness of the feedback mechanism adversely affects the formation of scientific strategic decisions, causing many major problems at all levels in the armed forces because situations are not timely reported and thus decisions are delayed for a long time. The development of China's commodity economy makes the original pattern of "military communism" in the armed forces no longer applicable. The policies and systems formed in the past under the guidance of this

idea appear to be a case of ability falling short of one's wishes, thereby adversely affecting the arousing of the enthusiasm of the great number of officers and men. The experience in the political building of the PLA tightly binds our thoughts. This is the clearest characteristic in the "difference in elevation" achieved by the armed forces of the developed countries.

Comrade Deng Xiaoping has said: "The various kinds of mistakes that we made in the past were, of course, related to the ideas and work styles of certain leaders, but problems concerning the organizational system and the work system were more important ... and were of a more fundamental, overall, steady, and long-term nature." ("Selected Works," page 293) He also pointed out: "Some of our systems in the past were in reality influenced by feudalism, including the personality cult, the patriarchal system, or the patriarchal behavior, and even including the cadre post life tenure. We are now studying how to avoid a repetition of these phenomena and are preparing to start with the reform of systems." ("Selected Works," page 307) The reform of the armed forces is like this. Only by making breakthroughs in the mechanisms and the systems can we get to the root of armed forces building.

Enumerating the goals for the problems that exist in the present operating mechanism will not only help us to see the urgency of reforming the present operating mechanism, but will also make us truly recognize and set up a new operating mechanism. Under the premise of not changing the basic political system, the changes in the existing operating mechanism will be decided by an understanding of the changes in the objective environment. Seeing that the armed forces are the instrument that embodies the party's and state's will, the establishment of a new operating mechanism must be subordinated to and serve the general mission of the party and the state. The basic line of the party in the new historical period and the state's putting economic construction as its central task objectively impose three demands on the armed forces. First, regional conflicts on China's periphery have become the main threat to China's development in security during the period of peace, and the PLA should fight well the small wars that could occur on China's periphery. At the same time, the acceleration of the PLA's construction as a whole is an effective deterrent to enemies. Second, at the same time as they provide security and benefits to state construction by actions on their own initiative, the armed forces must work hard to lighten the state's burden. Third, they should undertake emergency disaster relief and other temporary, shock social work. If our operating mechanism does not meet this need, we will be unable to complete the missions bestowed on us by the party and the state in the new period and to reform the structure of the existing operating mechanism. Thus it will be difficult for the PLA to complete missions centered on modernization.

While proposing changes in the existing operating mechanism, we certainly do not mean to deny the contributions made by this mechanism in the history of building the PLA. If we had insisted on making use of the "characteristics" and "experiences" in all things that were of meritorious service in the history of the building of the PLA, then the PLA's history would not be like it is today. History is always formed amid constant negotiations. What is noteworthy is that a very important reason that this operating mechanism could remain a "consistent system" for 30 years is, besides other reasons in history, that in the periods of peace it did not play a direct role in the armed forces, which caused us not to form an enterprising sense of urgency in our minds. Today, China is accelerating and deepening its reforms. The optimum entry angle and the opening up of new fields for reform will be the optimum way to raise the overall level of the PLA's modernization. The reform of the PLA is not a "facial alteration," but is established on the basis of the pattern of the characteristics of building the PLA in a period of peace. Under the circumstances in which the state's economic conditions cannot provide a reliable economic foundation for the armed forces to soar, the PLA should, after the cut in the number of personnel, work for a readjustment of its operating mechanism and structure, so that on the present economic foundation there can be a fairly big leap in the PLA's overall combat effectiveness. The PLA cannot just depend on making an all-out effort for a dozen years and with its own actual strength discuss its strong and weak points in this world. It must, through a struggle for a longer time, make good and full preparations from material to spiritual, from structure to mechanism. On the stage of the international arms race, it seems that the PLA should consciously establish the image of an outstanding long-distance runner, but it certainly cannot, for the sake of getting a place in the long-distance run, worsen its form in this run.

09727

#### **Quality Seen as Key Element in PLA Modernization**

40050183c Beijing JIEFANGJUN BAO in Chinese 12 Feb 88 p 3

[Article by Xu Guangyu [1776 0342 5940]: "Quality Should Be Borne in Mind in Armed Forces Modernization"]

[Text] When the world entered the era of the new technological revolution represented by electronic, nuclear energy, and space technologies, all sorts of advanced weapon and technological systems, with colossal power exceeding that of any era in the past, appeared on the stage of war. Just looking at the change in the average firepower damage index of one company, we see that now, compared to that of last century, it has risen by at least two orders of magnitude. The power of one nuclear artillery shell is several thousand times greater than that of one muzzle-loaded artillery shell of the

Middle Ages. Because of the support provided by modern high technology, the active space for armed forces' operations has been expanded to space and the deep sea. It may be said that there have been radical changes in all aspects of the military domain, from strategic thought to operational theory, from the form of warfare and the means of operation to the establishment and system of armed forces. Precisely against this background, the armed forces of all countries, without exception, put full stress on modernizing and improving their quality.

The matching of military forces cannot be separated from quantity, but it must have quality as its basis; otherwise, not only will the armed forces not be able to be highly effective but they will also become and extremely heavy burden. Generally speaking, a fairly large increase in quantity can be obtained through emergency mobilization, but it is difficult for quality to improve within a short period of time. In particular, in military confrontation under high-tech conditions in the future, the trend of development in which confrontation in quality is the basis will gradually become more marked. All these things are the important reasons that have led the armed forces of all countries to stress in their modernization the improvement of quality.

The fundamental objective in the PLA's revolutionization, modernization, and regularization is to constantly improve the political quality of the armed forces, and the main task of modernization is to solve the problem of military quality.

In general, the main targets for military quality are: the levels of military decision making and of military command and control; the level of the structure and effectiveness of military force; the quality of all kinds of weapons and technical equipment, installations, and other "hardware" systems; and degree of being advanced in "software" aspects such as strategy, tactics, laws and regulations, standards, as well as the quality of military talents. In addition, no matter whether it is "hardware" or "software," in the broad view their quality is generally manifested in three aspects: performance, effectiveness, and cost-effect ratio. Performance is the static manifestation of quality, for example, principles, materials, structure, precision, and accuracy. Effectiveness is the dynamic manifestation of quality, for example, efficiency, life span, survivability, sphere of action, and time. The cost-effect ratio is the comprehensive economic and effectiveness index of quality.

From this we can conclude that in its modernization the PLA needs to strengthen the concept of quality and to stress paying attention to solving well the following problems:

#### **1. The Decision-Making Mechanism for High Quality**

This is the chief factor determining the course of the PLA's modernization. It requires that the decision-making procedure be perfected and that system demonstrations be full; that goals be clear and that programs,

plans, policies, and other measures conform to reality; and that the decision-making success rate be high and there be the capability for self-regulation and for constantly pressing on toward optimum plans.

What is important for improving the quality of decision making is the perfection of the decision-making system. From a look at our present situation, although there is a deeper understanding of the importance of scientific decision making and of the role of consultation and demonstration in decision making, there has not yet been formed a comprehensive system for decision making, consultation, implementation, and feedback. In addition, more attention needs to be drawn to cultivating decision-making talents, to strengthening the legality and authority of the decision-making process, as well as to fully applying the results of modern microcomputer technology and information science.

## 2. Highly Effective Force Structure

The military effectiveness of armed forces is an important indicator for judging the degree of their modernization. The military effectiveness index can be quantified. It can be broken down into the essential factors of firepower, command and control, survivability, coordination capability, as well as logistics support capability. This means that, in order to improve overall military effectiveness, we must improve the effectiveness in every aspect. The basic way to improve effectiveness is, with advanced theory and with advanced science and technology, to improve the quality of all the "hardware" and "software" systems.

The qualitative-type force structure is mainly embodied in the proportion, mode, and effectiveness of the man-machine combination. If, in accordance with the scientific proportion and mode, high-quality "hardware" and high-quality men are combined, they form a qualitative-type force structure. The foundation and the focus of attention here is the transformation into quality. The overall strength of the armed forces is, of course, formed by a certain combination of quality and quantity. However, only by solving well the problem of quality can we get a fairly large degree of freedom in quantity, and in particular can we maintain the quantity of the armed forces at a fairly small scale without adversely affecting the necessary national defense image and self-defensive capability, and can we also, under a high-quality mobilization system, increase the quantity of the armed forces, including men, weapons, and technical equipment.

From the macro viewpoint, a qualitative-type force structure first of all requires the establishment of crack, highly efficient leadership organizations. Overstaffed, huge leadership organizations can offset the superior effectiveness brought about by modernized "hardware." Second, it requires that the proportion, structure, and organizational matching of all branches and arms of the service be appropriate, and that they be of high political

and military quality. The national defense scientific and technological system and the military college and school system likewise need to improve their effectiveness through reform and become bases that can produce high-quality national defense scientific research results.

## 3. High-Level "Hardware" and "Software" and the Talent Pool

One of the important goals in armed forces modernization is, by all ways and means of advanced science and technology, to improve weapons and technical equipment, to improve the quality of "hardware" system groups, and to strive, in fierce competition and confrontation, to lay an advantageous material foundation.

Different "hardware systems" have different quality standards. Because of differences in technical background, geographical environment, natural resource conditions, economic foundation, as well as strategic thinking, the quality standards of different countries are not completely identical. In broad outline their basic key elements are: precision, effective range, physical performance, survivability, life span, service performance, environmental effect, training conditions, cost-effectiveness ratio, adaptability, and security. "Hardware" quality is established on the basis of economic, scientific and technological forces. At present China's economic, scientific and technological forces are still fairly weak. However, following the step-by-step development of state construction, there will certainly be an improvement in the conditions for improving the quality of the PLA's "hardware." It is important that we grasp the concept of quality. Even under existing conditions we should make full use of the motive power provided by reform and the opening up to the outside to raise, vigorously and in a focused manner, the level of national defense science and technology and national defense industry. We should get a good grip on the improvement of the existing weapons and technical equipment in order to deal with near-term threats, and also make a point of keeping in mind long-term threats, strengthening the development of advanced weapons and technical equipment that have their foundation in high technology and working hard to narrow the gap with the armed forces of developed countries.

Modern armed forces are becoming more complex day by day. This makes the entire military machine, whether in peacetime or wartime, able to operate very quickly, and it must rely on a series of high-level "software" systems. In the main these systems include: theoretical guidance systems, strategic guidance systems, operational guidance systems, education and training guidance systems, military legal systems, and so on and so forth. A "software" system is the regulating norm for man-machine interaction and man-man interaction, and the level of its quality directly relates to the level of combat effectiveness. The key to improving the quality of "software" is the strengthening of theoretical research. This research must proceed from our national condition

and military condition, and must pay attention to the PLA's traditions and China's distinctive features. At the same time, more attention must be paid to research on the new military theories of foreign armies and on their experiences in operations and military administration.

The problem of the quality of the decision-making mechanism, force structure, as well as "hardware" and "software" systems, which was discussed above, in the final analysis depends on man for its solution. For the PLA's modernization, whether today or in the future, there is a great need for high-level command talents, political work talents, management talents, scientific and technological talents, as well as a large number of basic-level military officers who can make use of and lead troops. For the cultivation and training of all types of talents, besides running armed forces colleges and

schools well and perfecting the training and the academic discipline systems, we must set up a talent utilization and selection system, and create a good policy environment and a good material and spiritual environment that will attract talents, retain talents, and mature talents. Making all-people national defense education universal will make fertile soil for the cultivation of military talents, and it will also be a move of strategic significance.

China needs high-quality modernized and regularized revolutionary armed forces that have their own distinctive features. In our military reform we should struggle for this goal.

09727



**Labor, Education, Economic, Trade Statistics  
Reviewed**

40060213 Taiwan CHUNG-YANG JIH-PAO in Chinese  
5-8 Mar 88

[Article by Ch'en Cheng-i [7115 2973 3015]: "An Analysis of Taiwan's 1987 National Statistics"]

[5 Mar 88 p 3]

[Text] Editor's note: A few days ago the Primary Accounting Office of the Executive Yuan published an account of Taiwan's 1987 national statistics, revealing that in 1987 Taiwan distinguished itself politically, economically, socially, and culturally. National might is also solid. This has been achieved through the efforts of the government and the people alike. It is something for everyone to take part in and for the nation to treasure and be proud of. This newspaper will analyze and sort out these dazzling achievements and present them to our readers.

As of the end of 1987 Taiwan's household register recorded a population of 19.73 million people, up 220,000 over the previous year. The population growth rate rose from 10.2 percent in 1986 to 11.07 percent in 1987. We reached a population density of 545 people per square kilometer, up 6 people per square kilometer over 1986. This is one of the highest population densities in the world. We are now again in the year of the dragon. That this is a propitious year means that people will want to have more children and the wave of births may push our population over the 2-million mark. The population crush will increase the pressure on the quality of our lives.

**The Population Structure Is Growing Progressively Older**

A survey of the population structure reveals that people under 14 years old comprised 28.5 percent of the population in 1987 (29.01 percent in 1986), people 15 to 64 comprised 66.1 percent (65.71 percent in 1986), and people over 65 comprised 5.4 percent (5.28 percent in 1986). This shows that the proportion of youth is gradually declining, the average age is rising, and the population structure is gradually aging. The issue of security and care for the elderly is growing ever more prominent.

Generally speaking, the 15 to 64 age group constitutes the working population. In 1987 there were 13.43 million people in Taiwan over the age of 15, and the labor force reached 8.18 million people. The labor participation rate reached 60.93 percent—the highest ratio since 1962. This demonstrates that in recent years the economy has been booming. People's desire to participate in the work force has risen considerably, and manpower resources are being put to more effective use.

On the other hand, 160,000 people were unemployed last year, for an unemployment rate of 1.97 percent. Unemployment was down 0.69 percent from the previous year—the greatest one-year drop since 1967. Categorized according to education level, unemployment ratios were as follows: The lowest unemployment ratio was 1.19 percent, for those with a junior middle school education or below, and the highest unemployment ratio was 3.38 percent, for those with a senior middle school or vocational school education. In successive order, unemployment was highest for senior middle school graduates, then junior-college graduates, and finally college graduates and above. This has given rise to an interesting phenomenon—the highest recorded bipolarity in employment rates between those with higher and lower educations.

**Laborers Account for Many of the Employed**

Laborers accounted for the greatest number of employed people in Taiwan, numbering 5.35 million people in 1987. About 96 percent of these laborers were enrolled in labor insurance to receive social security. Because laborers are primarily young, they changed jobs frequently and served an average of only 5 years at any one job. There were 153,000 people under the Basic Labor Law who had already reached retirement age. In the past 5 years another 182,000 people have become eligible for retirement, so we must prepare early to take care of retiring laborers and replenish our basic labor force.

As for wages, workers in the manufacturing industry made an average of NT\$15,220 per month in 1987, up 9.7 percent over 1986. During the same period labor productivity increased 10.32 percent. This demonstrates that the benefits of increased productivity are being distributed more reasonably.

In most areas of employment the average wage for women is 63.9 percent of the average wage for men, but newly employed female personnel may earn about 81 percent of the average male wage. The primary reason for this discrepancy in wages is that women withdraw from the labor market after marriage or switch to dual-profession employment. Relatively few hold positions at the cadre level or above.

**The Government Has Set Up Widespread Employment Assistance Organizations**

To keep in step with economic and social development in Taiwan and assist people in gaining employment, the government has set up widespread employment assistance organizations in the province and cities. In 1987 these organizations assisted 11,306 people in finding employment—7,643 fewer than in 1986. Of the people looking for work, 19.96 percent used these services—also down 6.43 percentage points from the 26.29 percent who

used them in 1986. This demonstrates that there are various avenues one can pursue in looking for work, and also that the number of employment opportunities exceeds the labor supply.

It is worth noting that with the awakening of labor consciousness, cases of disputes between labor and management are increasing. According to statistics, there were 1,621 such cases in 1987—up 136 cases, or nearly 10 percent, over 1986.

In fact, the government has always been concerned about disputes between labor and management. The government actively promotes links and coordination between labor and management, and whenever a dispute arises it proposes arbitration first. When arbitration fails, the parties resort to legal mediation and arbitration. This is beneficial in maintaining harmony between labor and management. In the future, if we continue to make an effort to humanize administration on the management side and make the struggle for power more reasonable on the labor side, we should be able to get through the adjustment period successfully and rebuild a new labor and management ethic.

[6 Mar 88 p 2]

The spread of education has given tiny, crowded Taiwan a high-quality pool of human resources, which has become the motive power behind the economic miracle we have wrought. Moreover, educational equality has smashed class lines. Everyone has an opportunity to rise in society as long as he is willing to work hard.

#### **Teacher and Student Quality Has Improved Considerably**

The Primary Accounting Office of the Executive Yuan has pointed out that in 1987 the body of students and teachers in Taiwan schools grew considerably in quantity and quality. And in the 1987 academic year we have also advanced a series of important educational measures: We have implemented computer applications courses in the junior middle schools, opened overseas study programs for graduates of senior middle schools, formulated a 5-year plan to improve and develop technical and vocational education, lifted restrictions on the establishment of independent academies, encouraged colleges to develop research institutes, and increased double majors. All these things have a profound and lasting influence.

During the 1987 academic year there were 5,123,742 students actively studying in Taiwan. This was an increase of 1.55 percent over the previous academic year. Comparing educational composition in 1987 with that of the previous academic year, we find that primary education increased from 51.59 percent to 51.73 percent, junior middle school education declined from 33.53 percent to 33.32 percent, senior middle school

education rose from 8.78 percent to 9.08 percent, and supplementary education dropped from 6.11 percent to 5.87 percent. (See the "Educational Survey" table appended below.)

As for the proportion of students entering a higher school, 99.89 percent of all school-age children attended school, and nearly 100 percent of all primary school graduates, 78.93 percent of all junior middle school students, and 60.77 percent of all senior middle school students went on to a higher-level school. This demonstrates that the educational level of our countrymen is gradually rising. The student/teacher ratio was 1:26.17 in 1987, down from 1:26.31 the year before. Because the number of teachers is increasing faster than the number of students, students have access to more educational opportunities.

#### **The Emphasis Is on Training Qualified High-Level Scientists and Technicians**

In 1987 the emphasis in scientific and technical development continued to be on developing high-level science and technology and training scientists and technicians. In 1987 government departments invested 13.5 billion yuan in scientific and technological promotion programs, for an increase of 20.3 percent over 1986. The scale of this effort was considerable. Of this quantity, 8 billion yuan—the largest amount—went to industrial S&T and 2.1 billion yuan went to agricultural S&T. This corresponds to the current economic development ratio. In 1987 the National Science Council subsidized 2,543 special research projects, up 442 over 1986, and spent 1.3 billion yuan, up 300 million yuan, to subsidize research. It also selected 353 scientists and technicians to engage in advanced studies at home or abroad—76 more than in 1986—and awarded financial assistance to 2,819 scientists and technicians working within China—262 more than in 1986. The growth in this series of figures also shows that the government is not abandoning efforts to promote and reward basic academic research.

Cultural activities can make living worthwhile. One event in 1987 that was particularly worthy of note was the completion and opening of the National Theater and Concert Hall. This helped to promote the development of musical and dramatic activities, and ensured that music would not come to a halt because of renovations to Sun Yat-sen Memorial Hall. And local cultural plans to complete the Taipei County Museum of Modern Ceramics and 16 historical relic sites, as well as to hold literature and artistic events during the arts season, have met with widespread acclaim.

As for international cultural exchanges, we have held the ROC Joint Exhibition of Ten Major Contemporary Artists, the ROC Circulating Crafts Exhibition in Central and South America, and the ROC Third Biannual International Print Exhibition, all of which have attracted the attention of art-lovers. As for announcing a

strategy to protect cultural assets or strengthening efforts to safeguard historic sites, we have completed renovations on 12 sites and we have plans to complete 15 more.

#### **The Demand for Cultural Activities is Increasing**

All told, there were 2,632 artistic and cultural exhibitions and events held in Taiwan in 1987, or an average of more than 50 per month. People had many opportunities to mold their characters last year. On the average, each person saw 8.2 movies in 1987—2 more than in 1986. This demonstrates that the demand for cultural activities grows as people's income increases.

[7 Mar 88 p 3]

Because the United States has used the exchange rate as a weapon, one by one the major trading nations of the world have jumped into an all-out trade war. Economic growth proceeded during a very difficult time.. In 1987 Taiwan continued to have outstanding and impressive economic indicators, and we pushed the average per capita GNP above the \$5,000 mark. This has aroused worldwide admiration.

#### **In 1987 Taiwan's Gross National Product Ranked 21st Worldwide**

The value of the new Taiwan dollar rose rapidly against the U.S. dollar last year, but because the yen and the mark also rose in value by the same margin, the boom in major U.S. and Japanese markets expanded steadily and benefitted Taiwanese exports. This ensured that domestic prosperity would continue to flourish.

The General Accounting Office of the Executive Yuan says preliminary statistics for 1987 show that our GNP for the year reached NT\$3.0908 trillion, equivalent to \$97.5 billion. This places us 21st worldwide. The average per capita GNP in Taiwan reached NT\$158,817, equivalent to \$4,989, placing us 30th worldwide (because several sparsely populated countries produce petroleum or other natural resources and thus have quite high per capita GNP's). With respect to our Asian neighbors, we rank second only to Japan, Singapore, and Hong Kong, and we surpass Korea and other countries.

But according to Zhang Wuchang [1728 0063 1603], a Hong Kong economist, because the Taiwanese love to "save on taxes," and have a well-developed underground economy, the book figures are skewed. In reality Taiwanese incomes may not be inferior to those in Hong Kong or Singapore.

However, it is worth noting that although our economic growth rate was as high as 11.4 percent in 1987, in the fourth quarter of the year it dropped to 7.86 percent after reaching 11.8, 11.91, and 12.82 percent, respectively, in each of the previous three quarters. This shows that the boom period has already turned around and begun to moderate.

#### **We Must Increase Domestic Demand in Order To Moderate Pressure From Rising Financial and Commodity Prices**

Second, the 39.86 percent national savings rate we achieved in 1987 was the highest on record, but our investment rate was only 19.15 percent. The additional NT\$640.2 billion in savings accounted for 20.71 percent of the GNP. Although this is lower than in 1986, when it was 22.71 percent, it is still a high percentage. In view of the fact that the inadequacy of domestic consumption and investment is growing more serious, we must increase domestic demand in order to moderate pressure from rising financial and commodity prices.

As for industrial composition, the standings of various industries as a percentage of GNP are as follows: agriculture fell from 5.3 percent in 1986 to 5.27 percent in 1987, industry rose from 51.38 to 51.99 percent (within which manufacturing rose from 42.94 to 43.48 percent), and service industries fell from 42.99 to 42.74 percent (within which commerce rose from 14.08 to 14.24 percent).

#### **The Rising Value of the New Taiwan Dollar Has Slowed the Trend of Industrial Production**

The above changes in industrial composition can be explained as follows: The percentage of GNP contributed by agriculture has been declining for some time because of environmental limitations. The industrial percentage has risen due to active exporting and smooth production and marketing in the manufacturing industries. Service industries, based on domestic demand, have not grown as fast as industry, and their percentage of the GNP has correspondingly declined.

To analyze this a bit further, preliminary statistics on the agricultural production index for 1987 show an increase of 4.9 percent over the previous year. Increased production of farm products accounts for only 2.1 percent of this, however, primarily because we have implemented a crop rotation plan in paddy fields, which has reduced rice production 30 percent. In 1987 we produced only 1.9 million metric tons of rice—the lowest amount since 1961. Production of variety grains, on the other hand, has risen 9 percent. Corn and soybeans, under the inducement of a guaranteed procurement price, have increased by margins of 13 percent and 21.2 percent, respectively. Fruit output has risen across the boards because several varieties have produced bumper harvests. So, although we have been hit by typhoons, the scale of increase is still 13 percent. Vegetable production has risen slightly, by 1.6 percent. Forest products have been affected by a policy-mandated reduction in lumbering, which has reduced output 20 percent. Production of livestock products, on the other hand, has generally increased. The range of increase has reached 10 percent, with the greatest growth occurring in milk and poultry production. The output of fishery products has grown by

about 10 percent, primarily because deep-sea fishing harvests have been excellent and there has been a major growth in output from fish breeding.

Industrial production has repeatedly been affected by the rising value of the new Taiwan dollar, but domestic and overseas demand has been powerful, resulting in an estimated increase of 12.33 percent in the 1987 GVO. Although this is somewhat lower than the 14.93 percent jump in GVO that occurred in 1986, it is nevertheless a rapid growth rate. It is worth noting that after October 1987, due to the rise in value of the new Taiwan dollar, the rising trend in industrial production slowed down. The annual rate of increase has dropped to around 6 percent.

The Primary Accounting Office has indicated that domestic industry relies too heavily on exports. Moreover, we are faced with a rise in the value of the new Taiwan dollar, and there is an increasing tendency toward international trade protectionism. The pressure on exports is gradually increasing. The next focus of efforts in industrial circles will be on how to improve the supplementary value of our products and lower production costs to maintain our competitive advantage.

In substance, the service industry grew 9.67 percent in 1987, including 11.93 percent growth in commerce. Because interest rates fell and the quantity of idle capital remained high, the banking industry grew only 3.21 percent. Other service industries, including shipping, housing, government, and so forth, grew between 5 and 11 percent.

#### **Effectively Using High Savings To Increase Domestic Demand**

A comprehensive survey of Taiwan's past economic situation reveals that because flourishing exports in the previous three quarters stimulated strong economic growth, national income also rose by a large margin. But as the rise in the value of the new Taiwan dollar brought a decline in fourth-quarter exports, the pace of growth began to slow. In the future the key to moving into the ranks of developed countries will lie in how we make effective use of high savings to increase domestic demand.

[8 Mar 88 p 3]

In 1987 Taiwan inaugurated another new foreign trade plan. The gross value of imports and exports amounted to \$88 billion, which jumped us into 13th place in global trade. For less than 2 million people on a tiny spot of land no bigger than 36,000 square kilometers to achieve such good results, it is no wonder that the world regards it as a miracle.

#### **Taiwan's Efforts To Balance Trade Have Been Successful**

If we analyze the causes of rapid foreign trade growth in 1987, we find that, in addition to our successive accomplishments in importing and exporting, large-scale growth in imports was a key factor. Imports grew faster than exports in 1987, and this demonstrates that Taiwan's efforts to balance trade have been successful.

As for exports, because the major European currencies and the Japanese yen one after the other rose substantially against the U.S. dollar, and because interest rates declined, material and raw material costs for commodities generally dropped, leading to a loosening of demand on the international market. In addition, the price of domestic petroleum and electricity has dropped several times, reducing business costs. This has allowed Taiwanese exports to remain competitive, and the export trade has continued unhindered. The gross value of exports in 1987 reached \$NT1,703.1 billion, up 13.2 percent over 1986 (equivalent to \$53.5 billion, for an increase of 34.5 percent), which made Taiwan the world's 10th largest exporting nation.

Surveying our exporting situations in various continents (or regions), we see that the United States was still our largest export market in 1987, receiving an export volume worth \$NT753.2 billion. This represents an increase of only 4.8 percent over 1986, demonstrating that the large-scale rise of the new Taiwan dollar against the U.S. dollar has already reduced export momentum to the United States. Moreover, exports to the United States also declined to 44.2 percent of all Taiwanese exports. The highest jump in export volume—38.6 percent—occurred in Europe, followed by Asia at 22.9 percent and Africa at 22.4 percent. This indicates that we are gradually seeing results in dispersed markets.

#### **Taiwan Has Jumped to 17th Place in World Imports**

As far as the variety of export goods is concerned, exports of electronic goods rose \$NT100 billion compared with 1986, or 29.1 percent (equivalent to \$3.7 billion, or 53.6 percent). Exports of other goods, such as machinery, plastic goods, electrical machinery and appliances, and so forth, all rose 20 percent or more, while exports of gauze, toys, metal goods, and conveyances have all risen more than 10 percent.

As for imports, due to unhindered exporting, a significant rise in the exchange rate for the new Taiwan dollar against the U.S. dollar, and three tariff reductions, the cost of importing declined and companies began aspiring to import goods. As a result, the monetary value of imports increased substantially to NT\$1,099.4 billion, up 20 percent over the previous year (equivalent to \$34.5 billion, up 42.8 percent). In the ranks of importing nations, Taiwan is within sight of rising from 20th to 17th place.

Surveying our importing situations in various continents (or regions), we find that in all cases imports grew by more than 10 percent. The highest jump in imports—35 percent—came from Europe, followed by Central America at 25.7 percent and Asia at 22.6 percent.

As far as the variety of imported goods is concerned, the greatest amount—\$21.4 billion—was spent on agricultural raw materials, primarily to meet the demand for processed export goods. However the greatest increase in imports was in capital equipment, which rose \$3.6 billion, or 55 percent over 1986. This shows that there is a powerful desire for business investment. Imports of consumer goods increased \$900 million, or 45.2 percent—also a sizable jump. This increase was directly related to the rise in consumer spending power and the decline of tariffs.

#### **Trade Policies Have Changed To Place Equal Stress on Imports and Exports**

The Primary Accounting Office of the Executive Yuan has pointed out that because Taiwan for many years adopted an "export oriented" trade policy, industrial development relied entirely upon processing and exporting. In recent years the sustained growth of foreign trade has resulted in continuous expansion in the export surplus. In 1987 Taiwan had an export surplus of NT\$603.7 billion (equivalent to \$19 billion), or NT\$587.9 billion (equivalent to \$15.6 billion) more than in 1986, and it is still expanding. But in the wake of the continuous rise in the exchange value of the new Taiwan dollar against the U.S. dollar since 1986, the import growth rate exceeded the export growth rate every month beginning with April 1986. This has already alleviated the increase in our export surplus.

Looking to the future, the Primary Accounting Office says that because trade policies have changed to place equal stress on imports and exports, foreign trade will continue to be loose and the export trade surplus will decline. The major outflow of natural resource will gradually improve.

The substantial relaxation of import controls and successive large-scale tariff reductions, in addition to the large rise in value of the new Taiwan dollar against the U.S. dollar, have reduced import costs. This has not only stimulated import expansion, it has also stabilized commodity prices. According to statistics, the wholesale commodities declined 4.36 percent in 1987, and export and import prices dropped 2.34 percent and 10.84 percent, respectively. Only consumer prices rose slightly, by 0.39 percent.

#### **We Are Now Sustaining High Growth and Low Commodity Prices**

In summary, the sustained growth in exports in 1987 spurred a flourishing economic situation and raised people's purchasing power, and the great export surplus

caused the money supply to expand continuously and become more accessible. The rising value of the new Taiwan dollar reduced import costs, restrained troublesome commodity prices, and finally sustained a situation of "high growth and low prices." This is indeed commendable. (For the relevant statistics on import and export regions and varieties, see the accompanying table.)

12512

#### **Continued Expansion in Economic Ties, Trade With Hong Kong**

*40060241 Hong Kong LIAOWANG [OUTLOOK]*

*OVERSEAS EDITION in Chinese*

*No 15, 11 Apr 88 pp 21-22*

[Article by Zhang Yi [1728 2011]: "Steady Expansion in Economic Ties Between Taiwan and Hong Kong"]

[Text] What are the development prospects for economic and trade relations between Taiwan and Hong Kong? How will they affect continued economic prosperity in Hong Kong? Based on analyses by all quarters, their economic and trade relations are expected to continue to strengthen, a development beneficial to economic growth in both places.

#### **A Historical Review**

Since the early 1950's, Taiwan and Hong Kong have had a fairly close trade relationship. At the time, Taiwan had to import many industrial consumer goods, a large part of them as transshipments from Hong Kong. Using its favorable position as a free port, Hong Kong also supplied Taiwan with what it needed. In 1952, Taiwan-Hong Kong trade amounted to \$33 million, including \$10.9 million in Taiwan exports to Hong Kong, or 9.5 percent of its total exports, and \$22.1 million in Taiwan imports from Hong Kong, or 11.8 percent of its total imports, resulting in a deficit of \$11.1 million for Taiwan. But this situation did not last long. As Taiwan's economy improved, its trade deficit with Hong Kong began to be replaced by a surplus, which amounted to \$10.7 million in 1957. Since then Taiwan had consistently maintained a trade surplus with Hong Kong. This is a major characteristic of Taiwan-Hong Kong trade.

Hong Kong began investing in Taiwan relatively early. Since the 1960's, as an export-oriented strategy paid off for both sides, bilateral economic and trade relations have grown substantially. Total Hong Kong exports to Taiwan expanded from HK\$870 million in 1966 to HK\$6,470,000,000 in 1984, up more than 73-fold, for an average annual increase rate of 26.29 percent. Meanwhile, the exports of Hong Kong-made products also shot up about 160-fold, from a little over HK\$10 million to HK\$1.61 billion, for an average annual increase rate

of 22.5 percent. Hong Kong imports from Taiwan amounted to HK\$17,337,000,000 in 1984, up 230-fold over 1950, for an average annual increase rate of 17.36 percent.

For many years Hong Kong has been Taiwan's third largest trading partner, after the U.S. and Japan. In 1985, bilateral trade hit \$2,859,000,000 including \$2,539,000,000 in Hong Kong imports from Taiwan, or 9 percent of total Hong Kong imports that year, making Taiwan the fourth largest supplier of goods to Hong Kong. Hong Kong exports to Taiwan were valued at \$319 million, 1.6 percent of its total exports, down from 1984. As for investment, total Hong Kong investment in Taiwan amounted to \$310 million in 1984, 7.2 percent of all foreign investment in Taiwan in the same period, funding a total of 965 projects. Industries which received the most investment were construction, transportation, textiles, chemicals, plastics, electronics, and services, in that order.

Taiwan is a relative latecomer to overseas investment. Only in 1959 was foreign investment allowed and the pace since then has been slow. Before 1985, foreign investment approved by the "investment review committee of the Ministry of Economic Affairs" amounted to a mere \$170 million. By 1983, Taiwan investment in Hong Kong was less than HK\$100 million, making Taiwan the ninth largest investor in Hong Kong.

#### **New Development Trends in Taiwan-Hong Kong Economic and Trade Relations**

While Taiwan-Hong Kong economic and trade exchanges became more complicated following the conclusion of the Sino-British agreement on Hong Kong, the overall trend has been toward development and expansion, as shown in the following ways.

Bilateral trade has further increased. In 1985, Taiwan exports to Hong Kong stood at \$2,539,000,000, up 21.66 percent from \$2,087,000,000 in 1984. In the same period, Hong Kong's share of Taiwan exports also went up from 6.9 to 8.3 percent. In 1986, Taiwan exports grew 14.8 percent over 1985 to reach \$2,915,000,000. Hong Kong exports to Taiwan dropped slightly from \$370 million in 1984 to \$319 million in 1985 but rebounded in 1986. During the first 10 months of 1987 alone, Taiwan-Hong Kong trade reached HK\$36,667,000,000, up 4.6 percent over the previous year. Taiwan exports to Hong Kong and Taiwan goods shipped through Hong Kong rose 42 percent and 62 percent respectively while Hong Kong-made exports to Taiwan also recorded a 45 percent gain.

Bilateral investment has picked up. Longstanding foreign exchange control and strict scrutiny of foreign investment by the Taiwan authorities were a major hurdle to investment in Hong Kong by Taiwan business. Since foreign exchange control was eased last July, however, several firms have applied to the Taiwan

"investment review committee of the Ministry of Economic Affairs" for permission to invest in Hong Kong and some have been approved. In addition, many firms take advantage of the regulation permitting the remission of up to \$5 million to invest in Hong Kong. Alternatively, they send the money to China to build factories, using Hong Kong as a springboard.

Exploiting the new trend toward opening up Taiwan's domestic market, Hong Kong investment in Taiwan has been spectacular. After Hong Kong Sincere Company opened an upscale department store in Taiwan in 1986, it is now known that the Watson Company, part of the Hong Kong Hutchison Whampoa Ltd, has plans to spend HK\$150 million to open dozens of stores throughout Taiwan in the next 5 years, its aim being to become the largest foreign-funded retail group in Taiwan. Wellcome Supermarkets, one of the largest supermarket groups in Hong Kong, also has announced that it would open a chain of supermarkets in Taiwan in cooperation with the Dinghao Group in Taiwan. Hong Kong investment in this project alone would amount to \$100 million. Hong Kong investment in Taiwan hit a record in 1987. According to preliminary Taiwan statistics, Taiwan absorbed \$1.4 billion in foreign capital in 1987, including \$450 million from the U.S., \$430 million from Japan, and \$180 million from Hong Kong. While Hong Kong remained in the No 3 spot, its rate of increase, at 137 percent, was the highest. Moreover, the amount of investment reached 56 percent of all investment in the 30 odd years before 1984.

Frequent personnel exchanges fueling tourism. For years, Hong Kong visitors made up as much as one-fifth of all tourists in Taiwan. In 1985 and 1986, Hong Kong tourists to Taiwan numbered 270,800 and 276,600, respectively, more or less unchanged from the several years before. As a "shoppers paradise," Hong Kong too is very attractive to Taiwan compatriots. After the Taiwan economy took off in the 1970's, Taiwan tourists to Hong Kong went up year after year, exceeding 100,000 each year since 1980. The average annual increase rate between 1973 and 1978 was 12.57 percent. Within 11 years, Taiwan visitors to Hong Kong numbered 1.23 million in all, which was half the number of Hong Kong tourists to Taiwan. The reason is that there were more restrictions in Taiwan. Since Taiwan formally allowed people to travel to the mainland for family visits in November 1987, the number of Taiwan compatriots visiting Hong Kong has shot up by a whopping 55.4 percent over 1986.

Judging from the above, the traditional multifaceted economic and trade relations between Hong Kong and Taiwan have not only been maintained in the last 2 years, but have also developed rapidly. There are three primary reasons for this.

First, it fits both sides' economic needs to continue to develop bilateral economic and trade relations. Over the past 20 years, economic growth in both Hong Kong and

Taiwan has been characterized by an export orientation and driven by exports to a large extent. While there is competition between them because of different economic interests, they also supplement each other in their pursuit of economic benefits. Taiwan, in particular, needs Hong Kong more than the other way round. It needs Hong Kong as a market and, taking advantage of the latter's advantageous position as a free port, it needs Hong Kong as a transshipment center from which to import raw materials and where it can develop economic ties with places around the world. Thus, Hong Kong has been Taiwan's third largest market for years, while Taiwan imports from Hong Kong made up a very insignificant percentage. Taiwan has consistently chalked up a sizable trade surplus with Hong Kong. In the last couple of years, Taiwan has been diversifying its markets to avoid being over-dependent on the U.S. Consequently, it must continue to work hard to cultivate other markets, including Hong Kong.

Second, reforms on the mainland and its opening to the outside world have had a positive impact on the development of economic and trade relations between Taiwan and Hong Kong. After China and Britain reached an accord on Hong Kong, Hong Kong's future became clearer and its economy, previously badly shaken by uncertain prospects, bounced back rapidly. Meanwhile, thoroughgoing reforms on the mainland and the in-depth implementation of the policy of opening to the outside world have been encouraging to Taiwan and Hong Kong compatriots. Entrepot trade between the two sides of the straits, which is conducted through Hong Kong, is still expanding. According to reports in CHUNG YANG JIH PAO in Taiwan, an estimated \$1.26 billion worth of Taiwan merchandise found its way to the mainland via Hong Kong last year, an increase of 15 percent over 1986, while mainland exports to Taiwan through Hong

Kong reached \$302 million, up 110 percent over 1986. There are also frequent press reports of Taiwan people investing in the mainland through Hong Kong.

Third, certain changes in Taiwan policies have also facilitated the development of Taiwan-Hong Kong relations. Since last July, the Taiwan authorities have taken a number of liberalization measures, such as relaxing foreign exchange control, allowing Taiwan compatriots to visit relatives on the mainland, and further easing entrepot trade. These moves made it easier for Taiwan compatriots to enter and leave Hong Kong and to transfer funds more freely, thereby promoting Taiwan-Hong Kong economic relations and trade.

#### Future Prospects

Since Hong Kong follows a unique market-economy system while the government plays a guiding role in the Taiwan economy, what bears watching in the development of bilateral economic and trade relations is the policy of the Taiwan authorities. The Taiwan government invariably hopes to steer bilateral ties in a way favorable to itself. First, it wants to attract as much Hong Kong capital as possible. Second, it wants to confine it to a specified area. On both counts, however, expectations have not been fulfilled. Hong Kong investment in Taiwan cannot be described as heavy, and there has been no effective control over Taiwan investment in the mainland through Hong Kong. Whatever the intent of the parties concerned, Taiwan-Hong Kong economic and trade relations are expected to continue to develop in a mutually beneficial way, with exchanges between the two, throughout Hong Kong's transition period. This development will help further economic growth in both Taiwan and Hong Kong and give impetus to the ultimate reunification of China.

12581